P

R

N

D

GEARED FOR GROWTH.

SPARTAN®

2018 ANNUAL REPORT | NASDAQ: SPAR


FedEx
Express
fedex.com
1.800.GoFedEx
The World On Time
CARPET

DARYL M. ADAMS
President and Chief Executive Officer,
Spartan Motors, Inc.

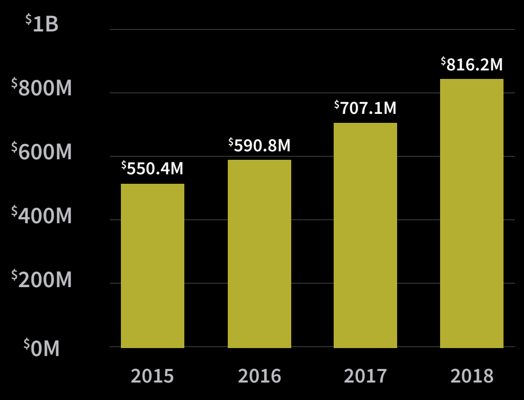
Fellow shareholders:

As we look back on 2018, the year was characterized by substantial momentum and continued investment in the business, despite the market challenges that impacted the entire manufacturing sector. We faced the impact of newly levied tariffs, which drove raw material cost inflation, and significant increases to aluminum conversion pricing, alongside notable shortages in both component parts and logistical delays.

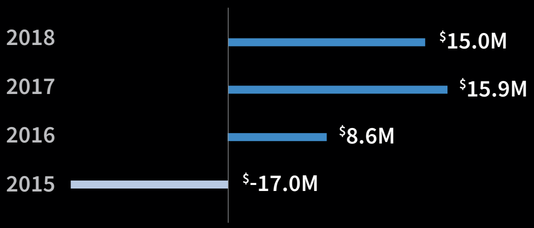
As you well know, the route to improved performance is seldom a straight line as these overarching market challenges threatened to block our path forward. With hard work, creativity, and determination, the entire Spartan team came together and focused our efforts on our core strengths—efficiently producing a high-quality product that's assembled with care and is built to last. Importantly, we made progress on several fronts that will prepare us for sustained revenue growth, improved profitability, and broader geographic reach.

Closing out 2018, I can tell you that Spartan Motors is definitely geared for continuous growth.

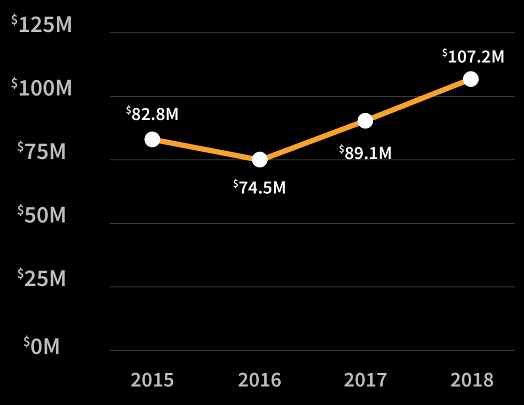
Total Revenue



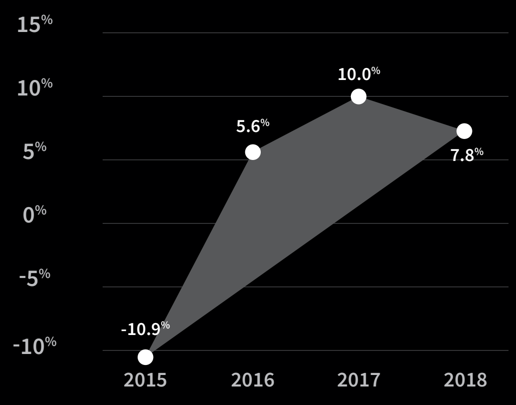
Net Income



Working Capital



Return on Invested Capital*



*See Return on Invested Capital GAAP reconciliation immediately following in the attached Form 10-K.

The Year in Review

Spartan's net revenue grew 15% to $816.2 million for the year, reflecting the growing foothold of our products and services in their respective markets. Despite the overall market headwinds we faced, the business achieved net income of $15.0 million in 2018, which marks the second-best year of profitability for Spartan since 2008.

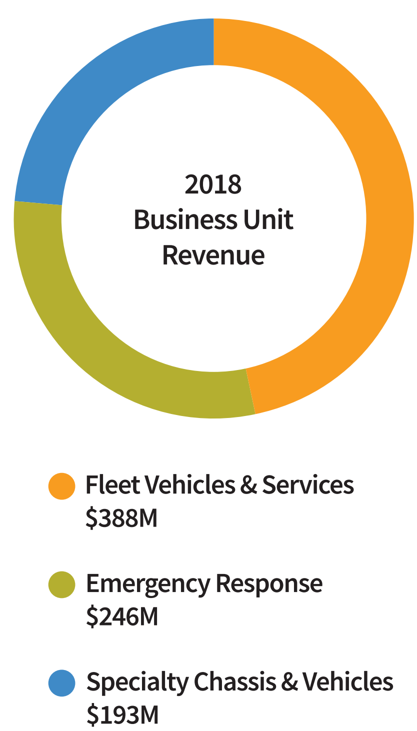
We made good progress on our strategy of growth through acquisition by expanding our East Coast and Southeastern U.S. presence by acquiring Strobes-R-Us in December 2018. Spartan expanded into the South Florida market, and gained notable upfit capabilities and customers in the process. We also expanded into a South Carolina facility to meet our leading e-commerce customer's production needs, which granted us coastal proximity, increased access, and a new vehicle original equipment manufacturer (OEM) to support our strategy in last mile delivery.

From a cultural perspective, the organization continues to embrace the Spartan Production System to drive efficiencies while our lean manufacturing efforts are expanding to every aspect of our operations. Our drive to instill a culture of accountability has empowered our associates to proactively identify issues and seek solutions before potential problems develop. Correspondingly, our empowered teams are equipped with the tools and the drive necessary to enhance and improve all aspects of our operations and subsequent go-to-market activities.

Importantly, as we look ahead to what the future brings for Spartan, we recognize the need to differentiate the company and our products in order to secure our long-term future. To do so, the entire business has embarked upon "Project Horizon," a multiyear strategic plan which sets the direction for an integrated and holistic approach to product, market, and business differentiation. The plan challenges us to be increasingly forward thinking and to anticipate industry changes while meeting the needs of our customers today. As we continue to witness the rapid evolution of last mile delivery, this comprehensive focus on ensuring Spartan stands out—and above—our peer groups will be key to our long-term success.

Adverse market conditions aside, 2018 contained many milestones Spartan can be proud of. Our top-line growth was strong relative to our core markets. This progress was driven primarily by organic growth in our Fleet Vehicles & Services and Specialty Chassis & Vehicles business units. Moving forward, you can expect Spartan and its brands to closely partner with both our current and prospective customers as we work hard to identify trends and better understand corresponding customer needs. Our response to those developments will shape the future of our business and enhance the value we bring to every market we serve.

Let's take a look at the individual performance in each of Spartan's three business units.



Fleet Vehicles & Services (FVS)

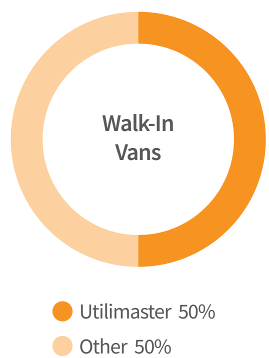
Spartan's FVS unit continued to deliver strong performance in 2018, posting unit sales of $387.5 million, which was up 54% from 2017, driven mainly by significant growth in last mile delivery vehicle sales and upfit orders, including the USPS multiyear truck body contract, the largest single order in Spartan's history. Early in the year, we partnered with the Pennsylvania Department of Community and Economic Development to invest in our Ephrata manufacturing facility, where today we are building the USPS truck body. Notably in 2018, Spartan's Utilimaster go-to-market brand earned a five-year exclusive agreement to provide delivery vehicles for a longtime customer, and won back the parcel delivery business of a longtime Canadian customer.

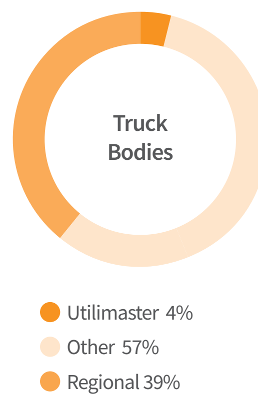
In December, we acquired Strobes-R-Us, a South Florida upfitter well known for upfitting local, state, and federal government fleets, alongside specialty service and first-response vehicles. With an experienced certified workforce, multiple installation bays, and a wide array of upfit capabilities, Strobes-R-Us upfits have earned the reputation of being uniform and precise. We plan to expand the Strobes-R-Us business in both scale and reach.

In response to North America's leading e-commerce and fulfillment company's announcement of their partnership with Mercedes, we opened an upfit ship-thru facility near the Mercedes Sprinter plant to accommodate that growing business. Located in North Charleston, South Carolina, Utilimaster is producing customized upfits for this important customer. Expanding on the relationship, we were recently awarded an additional cargo van upfit to be built on the RAM ProMaster platform. This build will be conducted in our Saltillo, Mexico plant, a ship-thru location, located adjacent to the RAM ProMaster facility.

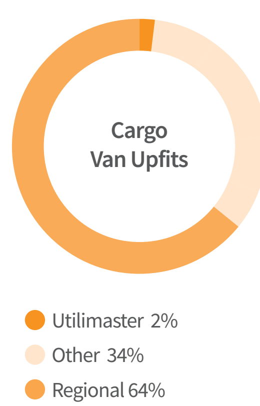
From a location perspective, Spartan's expansion into South Carolina and Florida gives us full end-to-end East Coast distribution coverage (including our existing

$2.6B Total Addressable Market

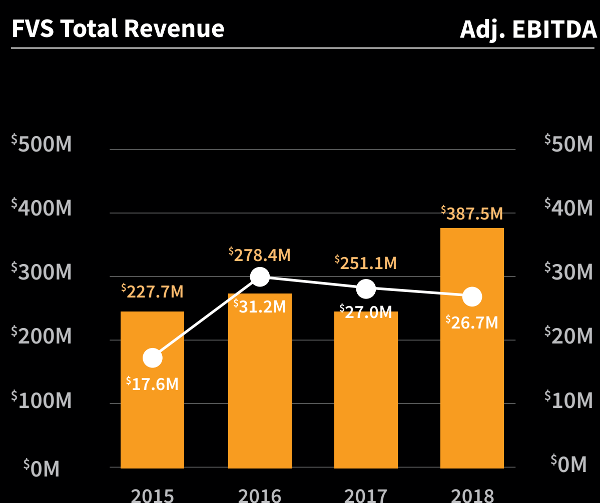




$1.2B Total Addressable Market




Little Bites
littlebites.com


FVS Total Revenue
Adj. EBITDA
$500M
$400M
$300M
$200M
$100M
$0M
$50M
$40M
$30M
$20M
$10M
$0M
$227.7M
$17.6M
$278.4M
$31.2M
$251.1M
$27.0M
$387.5M
$26.7M
2015
2016
2017
2018


prime

Ephrata, Pennsylvania, location), with facilities that are either in or near many of the most densely populated areas of the country, where products are needed and deliveries happen.

As e-commerce activity continues to increase, we have seen a shift toward more frequent deliveries of smaller parcels, and major package delivery companies are taking note. As consumer preferences change, Spartan understands the importance of being a one-stop shop for our customers across GVWR Classes 1-7, and have added to our vehicle and upfit portfolio in kind. That range of provision allowed us to meet the needs of UPS when it requested a smaller delivery vehicle.

In addition to last mile parcel delivery, food and fresh goods companies count on Spartan and Utilimaster to ensure their products get where they're going and remain at the proper temperature. In 2018, Gordon Food Service, Sysco, and Hy-Vee placed orders with Utilimaster for refrigerated vehicles, further emphasizing the growing need for this type of vehicle in the market. Both UPS and Frito-Lay selected Spartan's Utilimaster go-to-market brand to supply them with innovative Class 3 truck bodies, called small packs. Coupled with the growing grocery delivery segment, these orders highlight the emerging demand for safe and economical last mile delivery of fresh products and food goods.

As for the future, we are steadfastly focused on continuing to meet the expanding needs of fleet, commercial, and retail vehicle operators as they insist on vehicles that lessen the impact on the environment. In pursuit of these efforts, we are working to economically implement a broad range of alternative propulsion technologies, including compressed natural gas (CNG), propane, and full electric vehicles (EV). Our work in 2018 cemented four EV supplier relationships, effectively providing our customers the option of electric powered vehicles across our entire product continuum, from Class 1-7.

“ ”

We are pleased to expand our supplier partner relationships and effectively provide our customers with electric powered vehicles across our entire product continuum.

While the e-commerce explosion is driving a transformation in the delivery market for goods, and consumer preference has elevated the need for delivery services, Spartan continues to identify opportunities for growth and innovation. As is the case with any growth opportunity, we will remain focused on profitability and remaining close to our core competencies. For Spartan and Utilimaster, those core competencies are born from Work-Driven Design®, the innovative process that ensures a deep understanding of our customers and their goals, and culminates in customer-centric vehicle and upfit design and manufacturing. Regardless of what frontiers new innovations allow us to tackle, Work-Driven Design will be our guidepost to providing vehicle and upfit solutions that empower operators and owners to confidently take new roads across a rapidly evolving landscape.

Emergency Response (ER)

Spartan's Emergency Response business unit made significant progress toward improving financial results in 2018 by generating profitable orders despite difficult operating conditions. As a result, ER unit sales fell to $245.6 million in 2018 from $302.9 million in the prior year. Favorably, the ER division remained profitable on an adjusted EBITDA basis, posting just over $1 million compared to $3.2 million in adjusted EBIDTA in 2017.

“ ”

[A] 30% improvement in floor space utilization across operations [has] well positioned us for future growth.

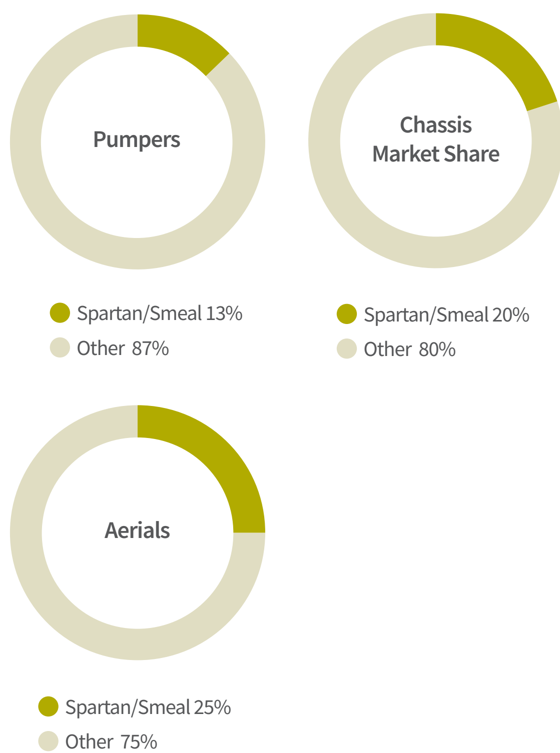
While 2018 presented several dealer and sales integration challenges related to the Smeal acquisition, we are confident that we have overcome the vast majority of disruptions and are back on track to continue to optimize our go-to-market and manufacturing operations.

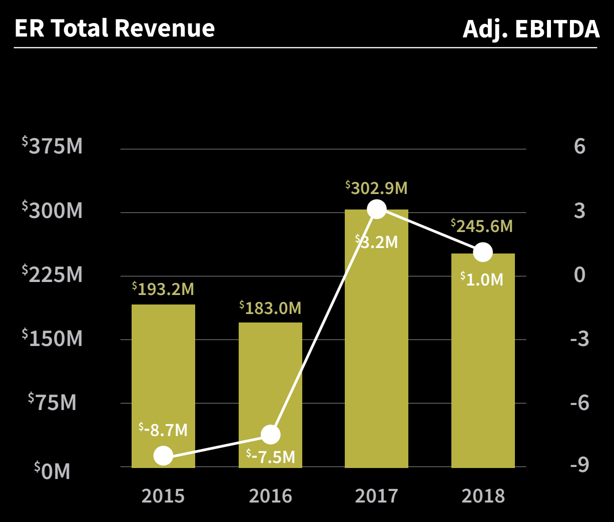
A portion of that go-to-market channel optimization has included resolving dealer territory conflicts. To that end, throughout the year we have worked hand-in-hand with our dealers to eliminate barriers by providing them the ability to sell Spartan ER's full family of brands and to consolidate sales efforts. We expect to complete all remaining dealer rationalization efforts in early 2019, eliminating any remaining territory coverage issues.

We made considerable progress improving operational effectiveness in the ER business during the year, meeting all production commitments. We successfully rationalized our production footprint by consolidating our U.S.T. build operation, previously conducted in a dedicated facility in Delavan, Wisconsin, with our apparatus manufacturing operation in Brandon, South Dakota, achieving considerable efficiencies.

Through the consolidation effort, and in the face of significant market headwinds, we achieved operating leverage of nearly 30% improvement in floor space utilization across operations and well positioned us for future growth.

$1.2B Total Addressable Market





ER Total Revenue
Adj. EBITDA
$375M
$300M
$225M
$150M
$75M
$0M
6
3
0
-3
-6
-9
$193.2M
$183.0M
$302.9M
$245.6M
$-8.7M
$-7.5M
$3.2M
$1.0M
2015
2016
2017
2018

Specialty Chassis & Vehicles (SCV)

The SCV business unit continued significant growth in 2018, accelerated mainly by the transfer of innovations from the luxury automotive market. By doing this, we have accelerated growth in our core SCV markets, increasing our 2018 market share to 26%, from 24% in 2017. These initiatives delivered unit revenues of $193.2 million, an increase of 21.7% over a strong 2017, in which we experienced revenue growth of 17.9% from 2016 annual results. This strong top-line growth additionally translated to solid bottom-line growth as adjusted EBITDA increased 33.2% to $18.7 million for the year, more than doubling since 2016.

Much of the success we achieved in the SCV business can be credited to our team's insistence on providing the best possible owner experience for our customers. From safety and innovation to industry-leading aftermarket support and warranty provision, Spartan's customer experience is the leading driver of our quest toward market leadership.

From an innovation standpoint, we launched Spartan Connected Coach™, a digital dash display with intuitive visuals and easy-to-use controls that provide visual insights and warnings when owner operators need them most. Combining visual queues for chassis-integrated collision mitigation, electronic stability control, lane departure warning, adaptive cruise control, tire pressure monitoring system, and more, our commitment to providing a safer and more innovative overall customer experience is clear.

In response to industry demands, additional innovation came in the form of new chassis development. For the first time, with the introduction of Spartan's K1 360 chassis, Spartan entered the sub-400-horsepower diesel chassis market, and in so doing, launched three coach models, two of which were under OEMs offering Spartan chassis for the very first time.

First launching under Entegra Coach's 2019 model year Reatta, the K1 360 chassis next appeared under the Jayco Embark later in the summer, based on the initial success of the Reatta.

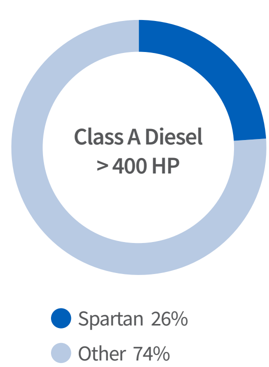
"

A big part of Spartan's market expansion includes our entry into the smaller, sub-400-horsepower diesel luxury motor coach market.

New model and OEM customer wins aside, the broad recreational vehicle (RV) market is undergoing a correction. We are pleased to say that our particular unit of Class A luxury diesel motor coaches have remained somewhat insulated and continue to perform well. By investing in technology, safety, and more responsive platform development, we have effectively broadened our addressable market, which will allow us to achieve growth beyond the broader industry well into the future.

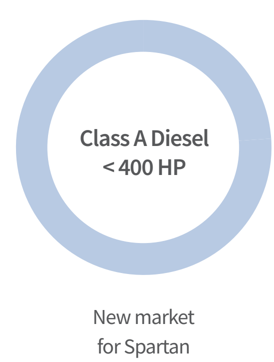
$420M

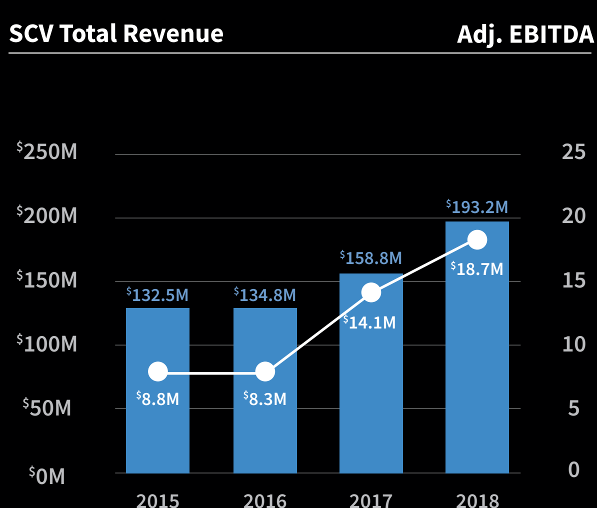
Total Addressable Market



$200M

Total Addressable Market




SCV Total Revenue
Adj. EBITDA
$250M
$200M
$150M
$100M
$50M
$0M
25
20
15
10
5
0
$132.5M
$134.8M
$158.8M
$193.2M
$8.8M
$8.3M
$14.1M
$18.7M
2015
2016
2017
2018

GEARED FOR GROWTH.

Looking ahead to 2019 and beyond, the team has the necessary stategy, tools, and expertise to continue on the path of sustainable profitable growth.

“ ”

Despite the reality of some residual macro headwinds, our core markets and business fundamentals remain strong.

The solid foundation we have built over the past four years has not only fueled our turnaround efforts and led to our notable profitable growth to date, but also paved the way toward accelerated earnings growth in the future. Despite the reality of some residual macro headwinds, our core markets and business fundamentals remain strong. Undeterred by this reality, our ongoing efforts to drive organic growth, improve efficiencies, and opportunistically identify acquisition targets positions us well to deliver increased shareholder value.

By solving customer problems creatively with vehicles and upfit solutions that last, I stand firm in my assertion that Spartan and its go-to-market brands will remain leaders in each market we serve, creating additional opportunities for growth. This focus on customer-centricity and market ascension has delivered wins for Spartan over the past year that will drive revenue growth into 2019 and beyond. We have remained selective in the types of business we pursue, focusing on profitable opportunities to drive our growth. Influences out of our control are altering consumer preferences near daily. Fortunately, this current evolution in buying behavior is correspondingly driving demand for our products. It’s our job to capitalize on that opportunity. From increased e-commerce activity driving last-mile delivery, to consumers, municipalities, and government entities demanding enhanced technology and safety in vehicles, one common thread remains—these influences are here to stay. In response to these dynamic factors, Spartan will invest proactively in the right people, processes, locations, and technologies to better anticipate and meet these evolving market needs. You can be assured we will do so in a way that enhances shareholder value.

I want to thank each member of the Spartan Motors team for their continued contributions toward meeting our long-term objective of sustainable, profitable growth. Looking back, 2018 was both challenging and successful as we achieved meaningful growth both organically and by acquisition, and continued to post solid profitability. As we build on these results, now 44 years in, I am confident that the best of Spartan Motors is yet to come.

On behalf of the full team at Spartan Motors, I would like to thank our shareholders, customers, dealers, and our colleagues for their ongoing trust, confidence, and partnership as we look forward to making good on the promise of a more prosperous tomorrow.

My best,

DARYL M. ADAMS

President and Chief Executive Officer

Each associate at Spartan Motors is aligned with the long-term goals of our shareholders, as we seek to best serve our customers, respond in kind to the overall market's need for a more responsive breed of specialty vehicle manufacturer, and ultimately drive long-term sustainable returns to our shareholders.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________________ to ____________________

Commission File Number 001-33582

SPARTAN MOTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Michigan	**38-2078923**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1541 Reynolds Road **Charlotte, Michigan**	**48813**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(517) 543-6400**

Securities registered pursuant to Section 12(b) of the Securities Exchange Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $.01 Par Value	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Securities Exchange Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes___ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ___ No X

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ____

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___	Accelerated filer X	Non-accelerated filer ___	Smaller reporting company ___	Emerging growth company ___

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No _X

The aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant, based on the last sales price of such stock on NASDAQ Global Select Market on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter: $510,454,715.

The number of shares outstanding of the registrant's Common Stock, $.01 par value, as of February 22, 2019: 35,228,841 shares

Documents Incorporated by Reference

Portions of the definitive proxy statement for the registrant's May 22, 2019 annual meeting of shareholders, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018, are incorporated by reference in Part III.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains some statements that are not historical facts. These statements are called "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve important known and unknown risks, uncertainties and other factors and can be identified by phrases using "estimate," "anticipate," "believe," "project," "expect," "intend," "predict," "potential," "future," "may," "will," "should" and similar expressions or words. Our future results, performance or achievements may differ materially from the results, performance or achievements discussed in the forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Risk Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

Risk Factors include the risk factors listed and more fully described in Item 1A below, "Risk Factors", as well as risk factors that we have discussed in previous public reports and other documents filed with the Securities and Exchange Commission. The list in Item 1A below includes all known risks our management believes could materially affect the results described by forward-looking statements contained in this Form 10-K. However, these risks may not be the only risks we face. Our business, operations, and financial performance could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. In addition, new Risk Factors may emerge from time to time that may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, although we believe that the forward-looking statements contained in this Form 10-K are reasonable, we cannot provide you with any guarantee that the anticipated results will be achieved. All forward-looking statements in this Form 10-K are expressly qualified in their entirety by the cautionary statements contained in this section and investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company undertakes no obligation to update or revise any forward-looking statements to reflect developments or information obtained after the date this Form 10-K is filed with the Securities and Exchange Commission.

PART I

Item 1. Business.

When used in this Form 10-K, “Company”, “we”, “us” or “our” refers to Spartan Motors, Inc. and, depending on the context, could also be used to refer generally to the Company and its subsidiaries, which are described below.

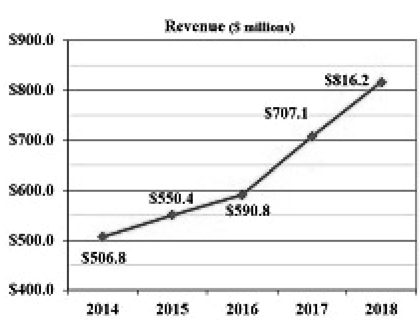
General

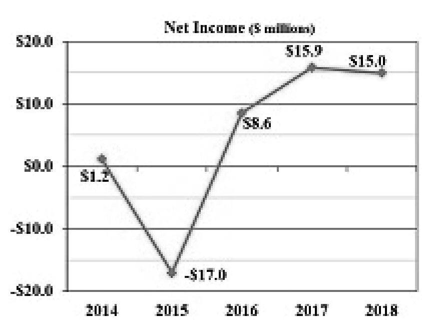
Spartan Motors, Inc. was organized as a Michigan corporation on September 18, 1975, and is headquartered in Charlotte, Michigan. Spartan Motors began development of its first product that same year and shipped its first fire truck chassis in October 1975.

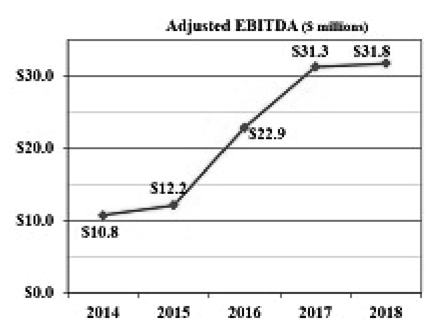
We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific up-fit segments), emergency response and recreational vehicle industries. Our products include: walk-in vans and truck bodies used in e-commerce/parcel delivery; up-fit equipment used in the mobile retail and utility trades; fire trucks and fire truck chassis; luxury Class A diesel motor home chassis; military vehicles; and contract manufacturing and assembly services. We also supply replacement parts and offer repair, maintenance, field service and refurbishment services for the vehicles that we manufacture. Our operating activities are conducted through our wholly-owned operating subsidiary, Spartan Motors USA, Inc. (“Spartan USA”), with locations in Charlotte, Michigan; Bristol, Indiana; Ephrata, Pennsylvania; Ladson, South Carolina; Pompano Beach, Florida; Brandon, South Dakota; Snyder and Neligh, Nebraska, along with contract manufacturing in Kansas City, Missouri and Saltillo, Mexico. We employed 2,338 people across all of our business units and corporate location as of January 31, 2019.

Our vehicles, parts and services are sold to commercial, original equipment manufacturers (OEMs), dealers, individual end users, and municipalities and other governmental entities. In 2018, 68.6% of our revenue was derived from commercial, original equipment manufacturers, dealers, and end users, while 31.4% was derived from municipalities and other governmental entities. Our product portfolio gives us access to multiple differentiated markets and corresponding customer bases which help to mitigate the impact of business cycles.

In 2015 we began executing against an aggressive turnaround plan targeting a return to profitability within three years. 2018 marks the beginning of our growth phase. We will continue to work towards maximizing operational efficiency and profitability, and add in a new focus on growing our revenue and market share through a combination of organic growth, acquisitions and entry into new synergistic markets. As illustrated in the charts below, over the past five years our revenue has increased by $309.4 million, a compound annual growth rate (CAGR) of 9.9%, while net income and adjusted EBITDA have grown by $13.8 million and $21.0 million respectively. Please see the reconciliation of adjusted EBITDA to Net income attributable to Spartan Motors, Inc., below.





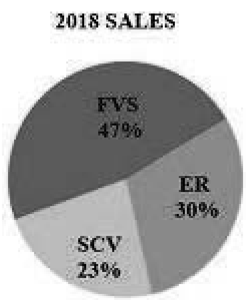


Our diversification across several sectors provides numerous opportunities while reducing overall risk as the various markets we serve tend to have different cyclicality. We have an innovative team focused on building lasting relationships with our customers by designing and delivering market leading specialty vehicles, vehicle components, and services. Additionally, our business structure provides the agility to quickly respond to market needs, take advantage of strategic opportunities when they arise and correctly size and scale operations to ensure stability and growth. Our expansion of equipment up-fit services in our Fleet Vehicles and Services segment, the award of a $214 million order from the United States Postal Service in 2017, and the growing opportunities that we have capitalized on in last mile delivery as a result of the rapidly changing e-commerce market are excellent examples of our ability to generate growth and profitability by quickly fulfilling customer needs.

We have the ability to carry out our long-term growth plan and obtain optimal financial flexibility by using a combination of cash generated from earnings, borrowings under our credit facilities as well as externally generated equity capital as sources of expansion capital.

Our Segments

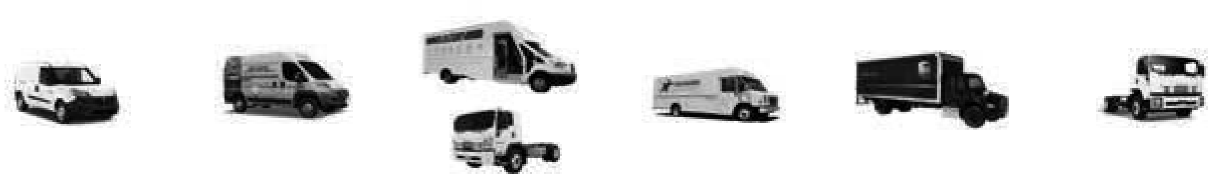
We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision makers to assess segment performance and allocate resources among our operating units. We have three reportable segments: Fleet Vehicles and Services, Emergency Response Vehicles and Specialty Chassis and Vehicles. For certain financial information related to each segment, see Note 16, *Business Segments*, of the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K. Revenue by segment is as follows:



Fleet Vehicles and Services Segment

We manufacture commercial vehicles used in the e-commerce/last mile/parcel delivery, beverage and grocery delivery, mobile retail, and trades and construction industries through our Bristol, Indiana and, beginning in 2018, our Ephrata, Pennsylvania, Ladson, South Carolina and Pompano Beach, Florida operations. Our commercial vehicles are marketed under the Utilimaster brand name, which serves a diverse customer base and also sells aftermarket parts and accessories for walk-in vans and other delivery vehicles. We also provide vocation-specific equipment up-fit services, which are marketed and sold under the Spartan Up-fit Services go-to-market brand, through our contract manufacturing operations in Kansas City, Missouri, Ladson, South Carolina, Pompano Beach, Florida and Saltillo, Mexico. Our Fleet Vehicles and Services segment employed 879 associates at our Bristol, Indiana facility, as of January 31, 2019, of which 237 were contracted employees.

We offer fleet vehicles in class 1 through 6, the largest range of product offerings among our competitors.



Class 1 **Class 2** **Class 3** **Class 4** **Class 5** **Class 6**

In the years ended December 31, 2018, 2017 and 2016, interior equipment up-fitting and aftermarket parts sales represented 23.2%, 17.3% and 25.9% of the Fleet Vehicles and Services segment sales.

Innovation

Our "Solution Experts" employ a customer-centric approach by working with customers through a process of listening and learning, needs assessment, and design innovation through building and implementing solutions custom designed for our customers. Recent innovations implemented by our Solution Experts include innovative and cost saving solutions for the specialty service segment, utility industry, food and beverage delivery, and mobile retail industry, such as safe loading equipment, keyless entry systems, backup camera systems, and refrigeration solutions. Our teams can deliver product customization ranging from out-of-the-box to 100% custom solutions.

Products

Walk-in Vans
Assembled on a "stripped" truck chassis supplied with engine and drive train components, but without a cab, our walk-in vans are used in the parcel delivery, mobile retail and construction trades industries and feature a durable and lightweight aluminum body with a highly modular cargo area accessible from the cab. Our walk-in vans offer low step-in height for easy entry and exit and the best driver visibility in the industry.

Truck Bodies
Our truck bodies are the industry standard for heavy-duty commercial delivery and are installed on chassis from a variety of manufacturers that are supplied with a finished cab. They feature a highly customizable cargo area for maximum versatility and are manufactured with anti-rust galvanized steel and aluminum. Available with cargo lengths from 10 to 28 feet and interior heights ranging from 72 to 108 inches.

Reach®
The Reach is a smaller, more nimble walk-in van offering up to 35% better fuel economy than traditional walk-in vans. Built on an Isuzu diesel chassis and available in lengths of 12 or 14 feet, the Reach offers a versatile cargo area with integrated logistics tracks allowing for a tailored up-fit through either pre-designed vocational or completely custom packages.

Cutaway
Our cutaway truck bodies are the industry standard for medium-duty commercial delivery and are installed on chassis from a variety of manufacturers that are supplied with a finished cab. The innovative cab can be designed to fit as many as five crew members and can be configured with a set-back walk-through bulkhead allowing access to the cargo area from the cab. Available with cargo lengths from 10 to 18 feet and interior heights ranging from 72 to 90 inches.

Velocity®
A productive, efficient and ergonomically designed walk-in van designed to make large product/package deliveries easy, with lower entry/exit height and 3-point grab rails at side and rear doors. Economical to operate with a cost of ownership about half that of a traditional walk-in van.

Specialty Up-fit
We install specialty interior and exterior up-fit equipment for walk-in vans, truck bodies and passenger vans for added safety, cargo handling efficiency, and vocational functionality.

Parts and Accessories
We provide a full line of parts and accessories for our walk-in vans and truck bodies.

Marketing

We market our commercial vehicles, including walk-in vans, cutaway vans and truck bodies, under the Aeromaster®, Velocity, Ultimate, Trademaster®, Metromaster®, Utilivan®, Spartan Upfit Services and Reach brand names. We sell our fleet vehicles to leasing companies, national and fleet accounts (national accounts typically have 1,000+ vehicle fleets and fleet accounts typically have 100+ vehicle fleets), and through a network of independent truck dealers in the U.S. and Canada. In 2018 we began marketing our truck bodies direct to retail customers in select markets. We provide aftermarket support, including parts sales and field service, to all of our fleet vehicle customers through our Customer Service Department located in Bristol, Indiana, which maintains the only online parts resource among the major delivery vehicle manufacturers. Except in limited circumstances, we do not provide financing to dealers, fleet or national accounts. We also maintain multi-year supply agreements with certain key fleet customers in the parcel and linen/uniform rental industries.

Manufacturing
We are implementing the Spartan Production System, lean manufacturing and continuous improvement to all of our fleet vehicle operations in order to maximize efficiency and reduce costs. We manufacture walk-in vans and truck bodies at our Bristol, Indiana facility and, beginning in 2018, we manufacture truck bodies at our Ephrata, Pennsylvania facility. We have dedicated facilities at Kansas City, Missouri, Pompano Beach, Florida and Saltillo, Mexico aligned with our commercial and OEM customers for the installation of up-fit equipment. Our walk-in vans and truck bodies are manufactured on non-automated assembly lines utilizing a combination of high- and low-skilled tradespeople and assemblers. Our up-fit facilities utilize teams of workers requiring minimal capital investment for efficient and timely installation of a variety of equipment.

Emergency Response Vehicles Segment

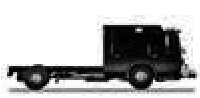
We are one of the top three fire truck apparatus and cab-chassis manufacturers in North America, with an emphasis on broad categorical coverage. We engineer and manufacture custom emergency response cabs and chassis and complete apparatus to customer specifications, for use by the fire industry throughout the United States and Canada, as well as select markets in South America and Asia.

Our Emergency Response Vehicles segment consists of the emergency response cab-chassis and apparatus operations at our Charlotte, Michigan location and the Spartan apparatus operations at our Brandon, South Dakota; Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania locations.

The Emergency Response Vehicles segment has extensive engineering experience in creating custom vehicles that perform specialized tasks, and generally manufactures vehicles only upon receipt of confirmed purchase orders; thus, it does not have significant amounts of completed product inventory. As an emergency response vehicle producer, Spartan Motors believes it holds a unique position for continued growth due to its engineering reaction time, manufacturing expertise and flexibility. The Emergency Response Vehicles segment employed 897 associates as of January 31, 2019, 8 of which were contracted employees.

Innovation
We communicate with end users to continuously identify innovations and bring the latest technology, safety and functionality to our emergency response cab-chassis and apparatus customers. Over the past few years, we have introduced innovations on our emergency response chassis and apparatus such as: our Spartan Select and S-180 truck programs, designed to provide the custom apparatus that emergency response professionals need with unprecedented order-to-delivery cycle times as short as 180 days; our industry-leading Advanced Protection System, which includes side curtain airbags, crew protecting knee bags, outboard accident sensors, smart restraint systems, heavy duty windshield wipers for increased visibility in all weather conditions, and a 360 degree camera that gives around-the truck visibility; our Advanced Climate Control system, the most advanced HVAC system available in the industry; Mobile Gateway, which provides an extensive group of connectivity features - even if the communications infrastructure is compromised or down; heated roll down side glass; optimized engine tunnel; and a new fire truck cab interior configuration, which provides additional space and comfort in both the driver and officer positions, improved shoulder harness accessibility, increased interior volume and a 45% reduction in in-cab noise levels when traveling at 45 mph.

Products



Cab & Chassis
Our emergency response chassis consist of the cab, frame and running gear to which the apparatus is fitted. We custom manufacture emergency response chassis to customer specifications through our Spartan USA subsidiary. These specifications vary based on such factors as application, terrain, street configuration and the nature of the community, state or country in which the fire truck will be utilized. We have three fire truck chassis models within this product line: the Gladiator; Metro Star; and Metro Star X.

Pumpers
Our pumpers are custom manufactured to customer specifications on Spartan chassis and are available as side, top or rear mount utilizing stainless steel or aluminum bodies with highly customizable storage configurations.

Aerials
We engineer, manufacture and market aerial ladder components for fire trucks under the Spartan, Smeal and Ladder Tower brands. Our aerial products are produced through our Spartan USA operations in Snyder, Nebraska and Ephrata, Pennsylvania, which have developed a full line of aerial products.

Rescues
Our rescues are optimized to carry the crew and the right equipment. Custom designs and configurations, include walk-in and walk-around to deliver the ultimate accessibility and storage capacity.

Tankers
Our tankers feature a full-size pump with multiple valve options to fit individual departments' needs, backed by a vast onboard water tank that can respond to structural operations and serve as a mobile water supply source.

Parts and Accessories
We provide a full line of parts and accessories which are distributed by our dealer channel, and available factory direct.

Service
Spartan and its go-to-market brands provide factory service and authorized service across a network of nearly 300 service centers in North America. In addition to routine maintenance, body, aerial, pump, drivetrain, and chassis repair, Spartan and its brands offer departments without the budget for new apparatus the opportunity to refurbish their existing unit or fleet.

Marketing

We market our custom emergency response cab-chassis and apparatus through a network of dealers throughout the U.S. and Canada, as well as select markets in South America and Asia, under the Spartan, Smeal, Ladder Tower and UST brands. Our dealer organizations establish close working relationships with municipal fire departments. These personal contacts focus on the quality of the group's specialty products and allow us to keep customers updated on new and improved product lines and end users' needs. We provide aftermarket support, including parts sales, directly through our refurbishment centers located throughout the United States and through our dealer network.

In 2018 and consistent with prior years, we were one of the largest participants of the Fire Department Instructors Conference, the largest fire and safety industry trade show in North America. We also participate in other trade shows throughout the year. Trade shows provide the opportunity to display products and to meet directly with OEMs who purchase chassis, dealers who sell finished vehicles and fire departments that use the finished products. Engineers from our advanced product development team attend these trade shows, and along with communication with our dealer network, work to provide the innovation, functionality and quality that fire departments need.

Manufacturing

We are implementing the Spartan Production System, lean manufacturing and continuous improvement to bring world class efficiency, productivity and quality to our chassis and apparatus operations. We manufacture our emergency response cab-chassis and apparatus at our Charlotte, Michigan; Brandon, South Dakota; Snyder, Nebraska; and Ephrata, Pennsylvania locations. Emergency response cab-chassis are manufactured at our Charlotte, Michigan facility, while our apparatus and aerial ladders are manufactured at our Brandon, South Dakota; Snyder, Nebraska; and Ephrata, Pennsylvania locations. We are able to match the manufacturing capabilities of our various locations with the demands of the specific products in order to maximize efficiency. Due to the custom nature of our products, our manufacturing processes utilize skilled workers on non-automated assembly lines. Our chassis and apparatus are generally manufactured to customer specifications in response to orders received. We also manufacture a limited number of chassis and apparatus for use as demonstration vehicles or to be sold from stock.

Specialty Chassis and Vehicles segment

Our Specialty Chassis and Vehicles segment operates out of our Charlotte, Michigan facility where we engineer and manufacture luxury Class A diesel motor home chassis, manufacture our Reach walk-in van, provide contract assembly of defense vehicles and other specialty chassis, and distribute related aftermarket parts and accessories. Our specialty vehicle products are manufactured to customer specifications upon receipt of confirmed purchase orders. As a specialty chassis and vehicle manufacturer, we believe we hold a unique position for continued growth due to the high quality and performance of our products, our engineering reaction time, manufacturing expertise and flexibility, and the scalability of our operations. Our specialty vehicle products are generally sold through original equipment manufacturers in the case of chassis and vehicles and to dealer distributors or directly to consumers for aftermarket parts and accessories. The Specialty Chassis and Vehicles segment employed 546 associates (all in Charlotte, Michigan) as of January 31, 2019, of which 137 were contracted employees.

Innovation

We promote effective communication through trade shows and motor home rallies with a wide variety of motor home owners to identify needs and bring our customers the latest technology and highest quality in our motor home and specialty chassis. Over the past few years, we have introduced innovations on our motor home chassis, including: custom tuned suspensions, independent front suspension, and passive steer tag axle that greatly improve ride, handling and maneuverability; adaptive cruise control, collision mitigation, electronic stability control and lane departure warning to improve safety; and automatic air leveling that adds convenience and functionality to top line motor homes.

Products

Motor home chassis

We custom manufacture diesel chassis for luxury Class A motor homes to the individual specifications of our motor home OEM customers through our Spartan USA subsidiary. These specifications vary based on specific interior and exterior design specifications, power requirements, horsepower, and electrical needs of the motor home bodies to be attached to the Spartan chassis. Our motor home chassis feature diesel engines of 360 to 605 horsepower and are used in motor homes ranging from 37 to 45 feet. Our motor home chassis are separated into four models: the K1, K2, K3, and K4 series chassis.

Isuzu N-gas and F-series

We provide final assembly services for Isuzu N-gas and F-series chassis for the North American market. These class 3 and class 5 chassis are utilized in a variety of final configurations for light duty freight hauling and industrial uses. We have a low-cost structure and a highly skilled team of assembly workers, which, along with a dedication to lean manufacturing and continuous improvement allow us to deliver superior value in contract manufacturing.

Defense and Specialty chassis and vehicles

We partner with a variety of OEM customers to provide chassis and complete vehicle assembly for military vehicles, drill rigs, shuttle bus chassis and other specialty chassis and vehicles.

Parts and Accessories

We provide a full line of parts and accessories for our motor home, defense and specialty chassis as well as maintenance and repair services for our motor home and specialty chassis.

Marketing

We sell our Class A diesel motor home chassis to OEM manufacturers for use in construction of premium motor homes. We actively participate in a variety of trade shows and motor home rallies that promote our products and aftermarket parts and services in addition to providing an opportunity to communicate with our end customers to showcase Spartan's latest innovations and identify needs and opportunities for continuous improvement of our chassis.

Manufacturing

Our motor home chassis and specialty manufacturing operations benefit from implementing the Spartan Production System, lean manufacturing and continuous improvement to bring efficiency and cost reduction throughout our Specialty Chassis and Vehicles segment. We manufacture motor home chassis, drill rigs, military vehicles and specialty bus chassis on non-automated assembly lines at our Charlotte, Michigan facility. We assemble Isuzu N-gas and F-series chassis on high-volume assembly lines at our Charlotte, Michigan location that utilize a variety of state of the art automation and testing equipment.

Recent Acquisitions

On December 17, 2018, the Company acquired all of the assets and assumed certain liabilities of Strobes-R-Us, Inc. ("SRUS"), a premier provider of up-fit services for government and non-government vehicles. The acquisition will enable the Company to increase its product offerings to both fleet and emergency response customers, while further expanding its manufacturing capabilities into the southeastern U.S. market. As part of this acquisition, Spartan acquired SRUS' state-of-the-art up-fit facility and product showroom in Pompano Beach, Florida. The acquisition will be included in the Fleet Vehicles and Services segment.

On January 1, 2017, we acquired substantially all of the assets and assumed certain liabilities of Smeal Fire Apparatus Co., Smeal Properties, Inc., Ladder Tower Co., and U.S. Tanker Co., resulting in the addition of $61.1 million and $124.7 million of revenue in 2018 and 2017, respectively. When used in this Annual Report on Form 10-K, "Smeal" refers to the assets, liabilities, and operations acquired from such entities. The assets acquired consist of the assets used by the former owners of Smeal in the operation of its business designing, manufacturing, and distributing emergency response vehicle bodies and aerial devices for the fire service industry. Smeal has operations in Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania and is operated as part of our Emergency Response Vehicles segment. Our acquisition of Smeal resulted in the expansion of our product portfolio and, with the addition of the Smeal dealer network, an expansion of our geographic reach across 44 states and 13 Canadian provinces and territories. The acquisition strengthened our emergency response vehicle product line with the addition of market leading aerial designs and three manufacturing locations that will allow us to align our product portfolio with location specific manufacturing expertise to further increase efficiency.

Our strategy is to accelerate our growth by expanding into additional products and markets through opportunistic, strategic acquisitions. We believe that we have the management expertise, balance sheet strength and capital availability to enable continued growth through both organic expansion and an aggressive acquisition strategy.

Competition

The principal methods we use to build competitive advantages include short engineering reaction time, custom design capability, high product quality, superior customer service and quick delivery. We employ a solutions-based approach to offer specialized products tailored to customer needs across the spectrum of our products. We compete with companies that manufacture for similar markets, including some divisions of large diversified organizations that have total sales and financial resources exceeding ours. Our competition in the fleet vehicle market ranges from one large manufacturer in the walk-in van market to a number of smaller manufacturers in the truck body and equipment up-fit markets. Our direct competitors in the emergency vehicle apparatus market are principally larger manufacturers that compete throughout the North American market and often have a strong international presence. Certain competitors are vertically integrated and manufacture their own emergency response chassis and/or apparatus, although they generally do not sell their chassis to outside customers (other OEMs). Our competitors in the specialty vehicle market are principally large multi-product line manufacturers of specialty and heavy-duty vehicles.

Suppliers

We are dedicated to establishing long-term and mutually beneficial relationships with our suppliers. Through these relationships, we benefit from new innovations, higher quality, reduced lead times, smoother/faster manufacturing ramp-up of new vehicle introductions and lower total costs of doing business. Our accelerating growth and company-wide supply chain management initiatives allow us to benefit from economies of scale and maximize to focus on a common vision.

The single largest commodity directly utilized in production is aluminum, which we purchase under purchase agreements based on forecasted production requirements. To a lesser extent we are dependent upon suppliers of lumber, fiberglass and steel for our manufacturing. We have initiated long-term supplier agreements and are consolidating suppliers where beneficial to gain pricing advantages. There are several readily available sources for the majority of these raw materials. However, we are heavily dependent on specific component part products from a few single source vendors. We maintain a qualification, on-site inspection, assistance, and performance measurement system to control risks associated with reliance on suppliers. We normally do not carry inventories of such raw materials or components in excess of those reasonably required to meet production and shipping schedules. Material and component cost increases are passed on to our customers whenever possible. However, there can be no assurance that there will not be any supply issues over the long-term.

In the assembly of our fleet vehicles, we use chassis supplied by third parties, and generally do not purchase these chassis for inventory. For this market, we typically accept shipment of truck chassis owned by dealers or end users, for the purpose of installing and/or manufacturing our specialized commercial vehicles on such chassis, but from time to time we do purchase chassis for use in fulfilling certain customer orders.

Research and Development

Our success depends on our ability to innovate and add new products and features ahead of changing market demands and new regulatory requirements. Thus, we emphasize research and development and commit significant resources to develop and adapt new products and production techniques. Our engineering team of nearly 200 technical professionals is looking past “current practices” and “best practices” to deliver “next practices” for our customers and shareholders. Our engineering group is organized as a unified team serving one goal throughout the company, to deliver world class products and manufacturing processes regardless of product line or location, a concept that we refer to as “One Spartan Engineering”. The team balances the synergies of One Spartan Engineering with fully integrated teams dedicated to product line specialization. Results are accomplished with the appropriate blend of predictive analysis and physical property testing in our Research and Development facilities along with ride-and-drive analysis. Our efforts range from executing special orders for current production; to new production development for new functionality and product improvements; to exciting technologies that are new to the markets we serve, like vehicle electrification. Our engineering actions are driven by our firm commitment to safety, quality, delivery, and productivity. We spent $7.3 million, $6.5 million and $6.8 million on research and development in 2018, 2017 and 2016, respectively.

Product Warranties

We provide limited warranties against assembly and construction defects. These warranties generally provide for the replacement or repair of defective parts or workmanship for specified periods, ranging from one year to the life of the product, following the date of sale. With the use of validation testing, predictive analysis tools and engineering and design standards, we strive to continuously improve product quality and durability, and reduce our exposure to warranty claims. The end users also may receive limited warranties from suppliers of components that are incorporated into our chassis and vehicles. For more information concerning our product warranties, see Note 10, *Commitments and Contingent Liabilities*, of the Notes to Consolidated Financial Statements appearing in this Form 10-K.

Patents, Trademarks and Licenses

We have 28 United States patents, which include rights to the design and structure of chassis and certain peripheral equipment, and have 12 pending patent applications in the United States. The existing patents will expire on various dates from 2019 through 2033 and all are subject to payment of required maintenance fees. We also own 35 United States trademark and service mark registrations. The trademark and service mark registrations are generally renewable under applicable laws, subject to payment of required fees and the filing of affidavits of use. In addition, we have various international trademark registrations and pending applications.

We believe our products are identified by our trademarks and that our trademarks are valuable assets to all of our business segments. We are not aware of any infringing uses or any prior claims of ownership of our trademarks that could materially affect our business. It is our policy to pursue registration of our primary marks whenever possible and to vigorously defend our patents, trademarks and other proprietary marks against infringement or other threats to the greatest extent practicable under applicable laws.

Environmental Matters

Compliance with federal, state and local environmental laws and regulations has not had, nor is it expected to have, a material effect on our capital expenditures, earnings or competitive position.

Spartan believes in the preservation of the environment because it leads to a safer, healthier world for today and in the future. In addition to the various product offerings provided by Spartan, alternative fuel specialty vehicles are offered to help reduce pollutant emissions. Spartan also subscribes to environmentally conscious manufacturing practices while working to obtain ISO 14001 certification by 2020 and strongly encourages its suppliers to have similar manufacturing philosophies. Spartan recycles waste in many aspects of our daily operations and in the office.

Associates

We employed 2,338 associates as of January 31, 2019, substantially all of which are full-time, including 382 contracted associates. Management considers its relations with associates to be positive. Our production processes at our non-unionized facilities employ a combination of high- and low-skilled tradespeople and assemblers involved in body, electrical, mechanical, paint, and assembly operations.

Customer Base

We serve customers ranging from municipalities to OEMs to commercial customers and vehicle dealers throughout our product lines. Sales to our top 10 customers in 2018 accounted for 59.2% of our revenue. Sales to customers that individually exceeded 10% of our consolidated revenue for 2018 and 2016 are detailed in the chart below. In 2017 no customer individually exceeded 10% of our consolidated revenue.

Year	Customer	Sales ($ millions)	Percentage of consolidated revenue	Segment
2018	USPS	$ 81.7	10.0%	Fleet Vehicles and Services
2016	Jayco, Inc.	$ 71.0	12.0%	Specialty Chassis and Vehicles

We do have other significant customers which, if the relationship changes significantly, could have a material adverse impact on our financial position and results of operations. We believe that we have developed strong relationships with our customers and continually work to develop new customers and markets. See related risk factors in Item 1A of this Form 10-K.

Sales to customers outside the United States were $50.7 million, $81.2 million and $31.7 million for the years ended December 31, 2018, 2017 and 2016, respectively, or 7.0%, 11.5% and 5.4%, respectively, of sales for those years. All of our long-lived assets are located in the United States.

Order Backlog

Our order backlog by reportable segment is summarized in the following table (in thousands).

	December 31, 2018	December 31, 2017	Increase/(decrease)
Fleet Vehicles and Services	$ 218,775	$ 267,698	$ (48,923)
Emergency Response Vehicles	216,526	233,583	(17,057)
Specialty Chassis and Vehicles	37,656	33,806	3,850
Total consolidated	$ 472,957	$ 535,087	$ (62,130)

Our Fleet Vehicles and Services backlog decreased by $48.9 million, or 18.3%, driven by the partial build-out of the $214.3 million contract received in September 2017 to supply delivery vehicles, which will be fulfilled through 2019. Our Emergency Response Vehicles backlog decreased by $17.1 million, or 7.3%, primarily due to our adoption of ASC 606 which resulted in changes to our revenue recognition policy whereby we now recognize revenue on certain of our products as they are produced rather than at the time of shipment to the customer. Our Specialty Chassis and Vehicles segment backlog increased by $3.8 million, or 11.4%, due to strong motor home chassis order intake driven by new model introductions and market share gains.

Although the backlog of unfilled orders is one of many indicators of market demand, several factors, such as changes in production rates, available capacity, new product introductions and competitive pricing actions, may affect actual sales. Accordingly, a comparison of backlog from period to period is not necessarily indicative of eventual actual shipments.

Non-GAAP Financial Measure

This report contains adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), which is a non-GAAP financial measure. This non-GAAP measure is calculated by excluding items that we believe to be infrequent or not indicative of our continuing operating performance. For the periods covered by this report such items include expenses associated with restructuring actions taken to improve the efficiency and profitability of certain of our manufacturing operations, expenses related to product recall campaigns, litigation settlements, long-term strategic planning expenses, non-cash charges related to the impairment of assets, expenses related to a recent business acquisition, the impact of the step-up in inventory value associated with the recent business acquisition, and the impact of the business acquisition on the timing of chassis revenue recognition.

We present the non-GAAP measure adjusted EBITDA because we consider it to be an important supplemental measure of our performance. The presentation of adjusted EBITDA enables investors to better understand our operations by removing items that we believe are not representative of our continuing operations and may distort our longer term operating trends. We believe this measure to be useful to improve the comparability of our results from period to period and with our competitors, as well as to show ongoing results from operations distinct from items that are infrequent or not indicative of our continuing operating performance. We believe that presenting this non-GAAP measure is useful to investors because it permits investors to view performance using the same tools that management uses to budget, make operating and strategic decisions, and evaluate our historical performance. We believe that the presentation of this non-GAAP measure, when considered together with the corresponding GAAP financial measures and the reconciliations to that measure, provides investors with additional understanding of the factors and trends affecting our business than could be obtained in the absence of this disclosure.

Our management uses adjusted EBITDA to evaluate the performance of and allocate resources to our segments. Adjusted EBITDA is also used, along with other financial and non-financial measures, for purposes of determining annual and long-term incentive compensation for our management team.

The following table reconciles Net income attributable to Spartan Motors, Inc. to Adjusted EBITDA for the periods indicated.

	2018	2017	2016	2015	2014
Net Income (loss) attributable to Spartan Motors, Inc.	$ 15,012	$ 15,935	$ 8,610	$ (16,972)	$ 1,173
Interest expense	1,080	864	410	365	341
Income tax	2,261	90	100	4,880	(2,103)
Depreciation & Amortization	10,370	9,937	7,903	7,437	8,378
EBITDA	28,723	26,826	17,023	(4,290)	7,789
Restructuring and other related charges	1,881	1,252	1,095	2,855	2,157
Impact of intercompany chassis sales to Smeal	-	2,073	-	-	-
Acquisition related expenses	1,952	1,354	882	-	-
Impact of inventory fair value step-up	-	189	-	-	-
Product recall expenses	(46)	(368)	3,457	8,600	-
Long-term strategic consulting expense	995	-	-	-	-
Litigation settlement	447	-	-	-	-
Impact of acquisition adjustments for net working capital and contingent liability	(2,193)	-	-	-	-
Contingent consideration	-	-	-	-	742
Asset impairment	-	-	406	2,234	-
NHTSA settlement	-	-	-	2,269	-
Joint venture expenses	-	1	7	508	144
Adjusted EBITDA	$ 31,759	$ 31,327	$ 22,870	$ 12,176	$ 10,832

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports (and amendments thereto) filed or furnished pursuant to Section 13(a) of the Securities Exchange Act are available, free of charge, on our internet website (www.SpartanMotors.com) as soon as reasonably practicable after we electronically file or furnish such materials with the Securities and Exchange Commission.

The public may read and copy materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors.

Our financial condition, results of operations and cash flows are subject to various risks, many of which are not exclusively within our control that may cause actual performance to differ materially from historical or projected future performance. The risks described below are the risks known to us that we believe could materially affect our business, financial condition, results of operations, or cash flows. However, these risks may not be the only risks we face. Our business could also be affected by additional factors that are not presently known to us, factors we currently consider to be immaterial to our operations, or factors that emerge as new risks in the future.

We depend on local and municipal governments for a substantial portion of our business.

In 2018, local and municipal governments were the end customer for 29% of our revenue, including custom fire truck chassis, fire truck bodies, aerial ladders and other fire truck related apparatus. These markets are heavily impacted by municipal capital spending budgets, which may be impacted by fluctuating municipal tax revenues. These budgetary constraints may have a significant adverse effect on the overall fire and emergency vehicle market and/or cause a shift in the fire and emergency vehicle market away from highly customized products toward commercially produced vehicles. These changes could result in weakened demand for our products, which may have an adverse impact on our net sales, financial condition, profitability and/or cash flows.

The integration of businesses or assets we have acquired or may acquire in the future involves challenges that could disrupt our business and harm our financial condition.

As part of our growth strategy, we have pursued and expect we will continue to selectively pursue, acquisitions of businesses or assets in order to diversify, expand our capabilities, enter new markets, or increase our market share. Integrating any newly acquired business or assets can be expensive and can require a great deal of management time and other resources. If we are unable to successfully integrate the newly acquired businesses with our existing business, we may not realize the synergies we expect from the acquisition and our business and results of operations may be adversely impacted.

Re-configuration or relocation of our production operations could negatively impact our earnings.

We may, from time to time, re-configure our production lines or relocate production of products between buildings or locations or to new locations in order to maximize the efficient utilization of our existing production capacity or take advantage of opportunities to increase manufacturing efficiencies. Costs incurred to effect these re-configurations or re-locations may exceed our estimate, and efficiencies gained may be less than anticipated, each of which may have a negative impact on our results of operations and financial position.

Disruptions within our dealer network could adversely affect our business.

We rely, for certain of our products, on a network of independent dealers to market, deliver, provide training for, and service our products to and for customers. Our business is influenced by our ability to initiate and manage new and existing relationships with dealers.

From time to time, we or an individual dealer may choose to terminate the relationship, or the dealership could face financial difficulty leading to failure or difficulty in transitioning to new ownership. In addition, our competitors could engage in a strategy to attempt to acquire or convert our dealers to carry their products. We do not believe our business is dependent on any single dealer, the loss of which would have a sustained material adverse effect upon our business.

However, disruption of dealer coverage within a specific local market could have an adverse impact on our business within the affected market. The loss or termination of a significant number of dealers could cause difficulties in marketing and distributing our products and have an adverse effect on our business, operating results or financial condition. In the event that a dealer in a strategic market experiences financial difficulty, we may choose to provide financial support, such as extending credit, to a dealership, reducing the risk of disruption, but increasing our financial exposure.

We may not be able to successfully implement and manage our growth strategy.

Our growth strategy includes expanding existing market share through product innovation, continued expansion into industrial and global markets, and merger or acquisition related activities. We believe our future success depends in part on our research and development and engineering efforts, our ability to manufacture or source the products and customer acceptance of our products. As it relates to new markets, our success also depends on our ability to create and implement local supply chain, sales and distribution strategies to reach these markets.

The potential inability to successfully implement and manage our growth strategy could adversely affect our business and our results of operations. The successful implementation of our growth strategy will depend, in part, on our ability to integrate operations with acquired companies.

Our efforts to grow our business in emerging markets are subject to all of these risks plus additional, unique risks. In certain markets, the legal and political environment can be unstable and uncertain which could make it difficult for us to compete successfully and could expose us to liabilities.

We also make investments in new business development initiatives which, like many startups, could have a relatively high failure rate. We limit our investments in these initiatives and establish governance procedures to contain the associated risks, but losses could result and may be material. Our growth strategy also may involve acquisitions, joint venture alliances and additional arrangements of distribution. We may not be able to enter into acquisitions or joint venture arrangements on acceptable terms, and we may not successfully integrate these activities into our operations. We also may not be successful in implementing new distribution channels, and changes could create discord in our existing channels of distribution.

Increased costs, including costs of raw materials, component parts and labor costs, potentially impacted by changes in labor rates and practices and/or new or increased tariffs or similar restrictions, could reduce our operating income.

Our results of operations may be significantly affected by the availability and pricing of manufacturing components and labor, changes in labor rates and practices, and increases in tariffs or similar restrictions on materials we import. Increases in costs of raw materials used in our products could affect the cost of our supply materials and components, as rising steel and aluminum prices as well as increased tariffs have impacted the cost of certain of our manufacturing components. Although we attempt to mitigate the effect of any escalation in components, labor costs, and tariffs by negotiating with current or new suppliers and by increasing productivity or, where possible, by increasing the sales prices of our products, we cannot be certain that we will be able to do so without it having an adverse impact on the competitiveness of our products and, therefore, our sales volume. If we cannot successfully offset increases in our manufacturing costs, this could have a material adverse impact on our margins, operating income and cash flows. Our profit margins may decrease if prices of purchased component parts, labor rates, and/or tariffs increase and we are unable to pass on those increases to our customers. Even if we were able to offset higher manufacturing costs by increasing the sales prices of our products, the realization of any such increases often lags behind the rise in manufacturing costs, especially in our operations, due in part to our commitment to give our customers and dealers price protection with respect to previously placed customer orders.

Disruption of our supply base could affect our ability to obtain component parts.

We increasingly rely on component parts from global sources in order to manufacture our products. Disruption of this supply base due to international political events or natural disasters could affect our ability to obtain component parts at acceptable prices, or at all, and have a negative impact on our sales, results of operations and financial position.

When we introduce new products, we may incur expenses that we did not anticipate, such as recall expenses, resulting in reduced earnings.

The introduction of new products is critical to our future success. We have additional costs when we introduce new products, such as initial labor or purchasing inefficiencies, but we may also incur unexpected expenses. For example, we may experience unexpected engineering or design issues that will force a recall of a new product or increase production costs of the product above levels needed to ensure profitability. In addition, we may make business decisions that include offering incentives to stimulate the sales of products not adequately accepted by the market, or to stimulate sales of older or less marketable products. The costs resulting from these types of problems could be substantial and have a significant adverse effect on our earnings.

Any negative change in our relationship with our major customers could have significant adverse effects on revenues and profits.

Our financial success is directly related to the willingness of our customers to continue to purchase our products. Failure to fill customers' orders in a timely manner or on the terms and conditions they may impose could harm our relationships with our customers. The importance of maintaining excellent relationships with our major customers may also give these customers leverage in our negotiations with them, including pricing and other supply terms, as well as post-sale disputes. This leverage may lead to increased costs to us or decreased margins. Furthermore, if any of our major customers experience a significant downturn in their business, or fail to remain committed to our products or brands, then these customers may reduce or discontinue purchases from us, which could have an adverse effect on our business, results of operations and financial condition. There was one customer that accounted for 10 percent or greater of consolidated sales in 2018.

We depend on a small group of suppliers for some of our components, and the loss of any of these suppliers could affect our ability to obtain components at competitive prices, which would decrease our sales or earnings.

Most chassis, emergency response vehicle, aerial ladder and specialty vehicle commodity components are readily available from a variety of sources. However, a few proprietary or specialty components are produced by a small group of suppliers.

In addition, we generally do not purchase chassis for our delivery vehicles. Rather, we accept shipments of vehicle chassis owned by dealers or end-users for the purpose of installing and/or manufacturing our specialized truck bodies on such chassis. There are four primary sources for commercial chassis and we have established relationships with all major chassis manufacturers.

Changes in our relationships with these suppliers, shortages, production delays or work stoppages by the employees of such suppliers could have a material adverse effect on our ability to timely manufacture our products and secure sales. If we cannot obtain an adequate supply of components or commercial chassis, this could result in a decrease in our sales and earnings.

Changes to laws and regulations governing our business could have a material impact on our operations.

Our manufactured products and the industries in which we operate are subject to extensive federal and state regulations. Changes to any of these regulations or the implementation of new regulations could significantly increase the costs of manufacturing, purchasing, operating or selling our products and could have a material adverse effect on our results of operations. Our failure to comply with present or future regulations could result in fines, potential civil and criminal liability, suspension of sales or production, or cessation of operations.

Certain U.S. tax laws currently afford favorable tax treatment for the purchase and sale of recreational vehicles that are used as the equivalent of second homes. These laws and regulations have historically been amended frequently, and it is likely that further amendments and additional regulations will be applicable to us and our products in the future. Amendments to these laws and regulations and the implementation of new regulations could have a material adverse effect on our results of operations.

Our operations are subject to a variety of federal and state environmental regulations relating to noise pollution and the use, generation, storage, treatment, emission and disposal of hazardous materials and wastes. Although we believe that we are currently in material compliance with applicable environmental regulations, our failure to comply with present or future regulations could result in fines, potential civil and criminal liability, suspension of production or operations, alterations to the manufacturing process, costly cleanup or capital expenditures.

Our operating results may fluctuate significantly on a quarter-to-quarter basis.

Our quarterly operating results depend on a variety of factors including the timing and volume of orders, the completion of product inspections and acceptance by our customers, and various restructuring initiatives that may be undertaken from time to time. In addition, our Fleet Vehicles and Services segment experiences seasonality whereby product shipments in the first and fourth quarters are generally lower than other quarters as a result of the busy holiday delivery operations experienced by some of its largest customers. Accordingly, our financial results may be subject to significant and/or unanticipated quarter-to-quarter fluctuations.

Our businesses are cyclical and this can lead to fluctuations in our operating results.

The industries in which we operate are highly cyclical and there can be substantial fluctuations in our manufacturing, shipments and operating results, and the results for any prior period may not be indicative of results for any future period. Companies within these industries are subject to volatility in operating results due to external factors such as economic, demographic and political changes. Factors affecting the manufacture of chassis, emergency response vehicles, aerial ladders, specialty vehicles, delivery vehicles and other of our products include but are not limited to:

- Commodity prices;
- Fuel availability and prices.
- Federal, state and municipal budgets;
- Unemployment trends;
- International tensions and hostilities;
- General economic conditions;
- Various tax incentives;
- Strength of the U.S. dollar compared to foreign currencies;
- Overall consumer confidence and the level of discretionary consumer spending;
- Dealers' and manufacturers' inventory levels; and
- Interest rates and the availability of financing.

Economic, legal and other factors could impact our customers' ability to pay accounts receivable balances due from them.

In the ordinary course of business, customers are granted terms related to the sale of goods and services delivered to them. These terms typically include a period of time between when the goods and services are tendered for delivery to the customer and when the customer needs to pay for these goods and services. The amounts due under these payment terms are listed as accounts receivable on our balance sheet. Prior to collection of these accounts receivable, our customers could encounter drops in sales, unexpected increases in expenses, or other factors which could impact their ability to continue as a going concern and which could affect the collectability of these amounts. Writing off uncollectible accounts receivable could have a material adverse effect on our earnings and cash flow as the Company has major customers with material accounts receivable balances at any given time.

Our business operations could be disrupted if our information technology systems fail to perform adequately or experience a security breach.

We rely on our information technology systems to effectively manage our business data, communications, supply chain, product engineering, manufacturing, accounting and other business processes. While we believe we have robust processes in place to protect our information technology systems, if these systems are damaged, cease to function properly or are subject to a cyber-security breach such as infection with viruses or intentional attacks aimed at theft or destruction of sensitive data, we may suffer an interruption in our ability to manage and operate the business, and our results of operations and financial condition may be adversely affected.

Like most corporations, the Company's information systems are a target of attacks. In addition, third-party providers of data hosting or cloud services, as well as our suppliers, may experience cyber-security incidents that may involve data we share with them. Although the incidents that we have experienced to date have not had a material effect on our business, financial condition or results of operations, there can be no assurance that such incidents will not have a material adverse effect on us in the future. In order to address risks to our information systems, we continue to make investments in personnel, technologies and training of Company personnel.

Implementing a new enterprise resource planning system could interfere with our business or operations.

We are in the process of implementing a new enterprise resource planning (ERP) system. The ERP system was implemented at our first location in 2017, with the remaining locations expected to be implemented through 2021. This project requires significant investment of capital and human resources, the re-engineering of many processes of our business, and the attention of many associates and managers who would otherwise be focused on other aspects of our business. Should the system not be implemented successfully, we may incur impairment charges that could materially impact our financial results. If the system does not perform in a satisfactory manner once implementation is complete, our business and operations could be disrupted and our results of operations negatively affected, including our ability to report accurate and timely financial results.

Global political conditions could have a negative effect on our business.

Concerns regarding acts of terrorism, armed conflicts, natural disasters and budget shortfalls have created significant global economic and political uncertainties that may have material and adverse effects on consumer demand (particularly the specialty and motor home markets), shipping and transportation, the availability of manufacturing components, commodity prices and our ability to engage in overseas markets as tariffs are implemented.

Risks associated with international sales and contracts could have a negative effect on our business.

In 2018, 2017 and 2016 we derived 7.0%, 11.5% and 5.4% of our revenue from sales to, or related to, end customers outside the United States. We expect that international sales will continue to account for a meaningful amount of our total revenue, especially in our emergency response vehicles segment. Accordingly, we face numerous risks associated with conducting international operations, any of which could negatively affect our financial performance, including changes in foreign country regulatory requirements, the strength of the U.S. dollar compared to foreign currencies, import/export restrictions, the imposition of foreign tariffs and other trade barriers and disruptions in the shipping of exported products.

Additionally, as a U.S. corporation, we are subject to the Foreign Corrupt Practices Act, which may place us at a competitive disadvantage to foreign companies that are not subject to similar regulations.

Fuel shortages, or higher prices for fuel, could have a negative effect on sales.

Gasoline or diesel fuel is required for the operation of the specialty vehicles we manufacture. There can be no assurance that the supply of these petroleum products will continue uninterrupted, that rationing will not be imposed or that the price of or tax on these petroleum products will not significantly increase in the future. Increases in gasoline and diesel prices and speculation about potential fuel shortages have had an unfavorable effect on consumer demand for motor homes from time to time in the past and may continue to do so in the future. This, in turn, may have a material adverse effect on our sales volume. Increases in the price of oil also can result in significant increases in the price of many of the components in our products, which may have an adverse impact on margins or sales volumes.

We could incur asset impairment charges for goodwill, intangible assets or other long-lived assets.

We have a significant amount of goodwill, intangible assets and other long-lived assets. At least annually, we review goodwill and non-amortizing intangible assets for impairment. Identifiable intangible assets, goodwill and other long-lived assets are also reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable from future cash flows. If the operating performance at one or more of our reporting units fails to meet future forecasts, or if future cash flow estimates decline, we could be required, under current U.S. accounting rules, to record impairment charges for our goodwill, intangible assets or other long-lived assets. Any write-off of a material portion of such assets could negatively affect our results of operations or financial position.

Our stock price has been and may continue to be volatile, which may result in losses to our shareholders.

The market price of the Company's common stock has been and may continue to be subject to wide fluctuations in response to, among other things, quarterly fluctuations in operating results, a failure to meet published estimates of or changes in earnings estimates by securities analysts, sales of common stock by existing stockholders, loss of key personnel, market conditions in our industries, shortages of key product inventory components and general economic conditions.

If there is a rise in the frequency and size of product liability, warranty and other claims against us, including wrongful death claims, our business, results of operations and financial condition may be harmed.

We are frequently subject, in the ordinary course of business, to litigation involving product liability and other claims, including wrongful death claims, related to personal injury and warranties. We partially self-insure our product liability claims and purchase excess product liability insurance in the commercial insurance market. We cannot be certain that our insurance coverage will be sufficient to cover all future claims against us. Any increase in the frequency and size of these claims, as compared to our experience in prior years, may cause the premiums that we are required to pay for such insurance to rise significantly. It may also increase the amounts we pay in punitive damages, which may not be covered by our insurance. In addition, a major product recall or increased levels of warranty claims could have a material adverse effect on our results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The following table sets forth information concerning the properties we own or lease. We consider our properties to generally be in good condition, well maintained, and suitable and adequate to meet our business requirements for the foreseeable future. In 2018, our manufacturing plants, taken as a whole, operated moderately below capacity.

	Square Footage	Owned/Leased	Operating Segment
Manufacturing/Assembly			
Bristol, Indiana	417,000	Leased	Fleet Vehicles and Services
Charlotte, Michigan	110,000	Owned	Fleet Vehicles and Services
Kansas City, Missouri	60,000	Leased	Fleet Vehicles and Services
Ephrata, Pennsylvania	41,400	Leased	Fleet Vehicles and Services
Pompano Beach, Florida	11,800	Owned	Fleet Vehicles and Services
Charlotte, Michigan	181,000	Owned	Specialty Chassis and Vehicles
Charlotte, Michigan	156,000	Owned	Emergency Response Vehicles
Brandon, South Dakota	24,000	Owned	Emergency Response Vehicles
Brandon, South Dakota	21,000	Leased	Emergency Response Vehicles
Delavan, Wisconsin	39,000	Leased	Emergency Response Vehicles
Ephrata, Pennsylvania	54,000	Leased	Emergency Response Vehicles
Neligh, Nebraska	42,300	Owned	Emergency Response Vehicles
Snyder, Nebraska	224,000	Owned	Emergency Response Vehicles
	1,381,500		
Warehousing			
Bristol, Indiana	35,000	Leased	Fleet Vehicles and Services
Charlotte, Michigan	25,000	Owned	Fleet Vehicles and Services
Ephrata, Pennsylvania	4,500	Leased	Fleet Vehicles and Services
Charlotte, Michigan	74,000	Owned	Specialty Chassis and Vehicles
Charlotte, Michigan	11,000	Owned	Emergency Response Vehicles
Brandon, South Dakota	1,000	Owned	Emergency Response Vehicles
Brandon, South Dakota	10,200	Leased	Emergency Response Vehicles
Ephrata, Pennsylvania	1,600	Leased	Emergency Response Vehicles
Neligh, Nebraska	6,200	Owned	Emergency Response Vehicles
Snyder, Nebraska	70,500	Owned	Emergency Response Vehicles
	239,000		
Research and Development			
Bristol, Indiana	3,000	Leased	Fleet Vehicles and Services
Charlotte, Michigan	12,000	Owned	Emergency Response/Specialty Chassis and Vehicles
	15,000		
Service Area/Inspection			
Ephrata, Pennsylvania	4,900	Owned	Fleet Vehicles and Services
Charlotte, Michigan	53,000	Owned	Emergency Response/Specialty Chassis and Vehicles
Brandon, South Dakota	7,000	Leased	Emergency Response Vehicles
	64,900		

Offices			
Corporate Offices – Charlotte, Michigan	12,000	Owned	Not Applicable
Bristol, Indiana	36,000	Leased	Fleet Vehicles and Services
Kansas City, Missouri	3,000	Leased	Fleet Vehicles and Services
Ephrata, Pennsylvania	11,000	Leased	Fleet Vehicles and Services
Pompano Beach, Florida	1,250	Owned	Fleet Vehicles and Services
Charlotte, Michigan	127,000	Owned	Emergency Response/Specialty Chassis and Vehicles
Brandon, South Dakota	7,000	Owned	Emergency Response Vehicles
Brandon, South Dakota	3,000	Leased	Emergency Response Vehicles
Delavan, Wisconsin	4,800	Leased	Emergency Response Vehicles
Ephrata, Pennsylvania	8,000	Leased	Emergency Response Vehicles
Neligh, Nebraska	1,900	Owned	Emergency Response Vehicles
Snyder, Nebraska	19,700	Owned	Emergency Response Vehicles
	234,650		
Unutilized			
Charlotte, Michigan	**84,000**	Owned	Not Applicable
Total square footage	**2,019,050**		

Item 3. Legal Proceedings.

At December 31, 2018, we were parties, both as plaintiff or defendant, to a number of lawsuits and claims arising out of the normal conduct of our businesses. Our management does not currently expect our financial position, future operating results or cash flows to be materially affected by the final outcome of these legal proceedings.

Item 4. Mine Safety Disclosures.

Not applicable

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Select Market under the symbol "SPAR."

The following table sets forth the high and low sale prices for our common stock for the periods indicated, all as reported by the NASDAQ Global Select Market:

	High	Low
Year Ended December 31, 2018:		
Fourth Quarter	$ 14.86	$ 6.70
Third Quarter	16.10	13.35
Second Quarter	19.45	14.15
First Quarter	18.35	13.05
Year Ended December 31, 2017:		
Fourth Quarter	$ 18.10	$ 11.10
Third Quarter	11.25	8.50
Second Quarter	9.28	7.45
First Quarter	9.40	6.45

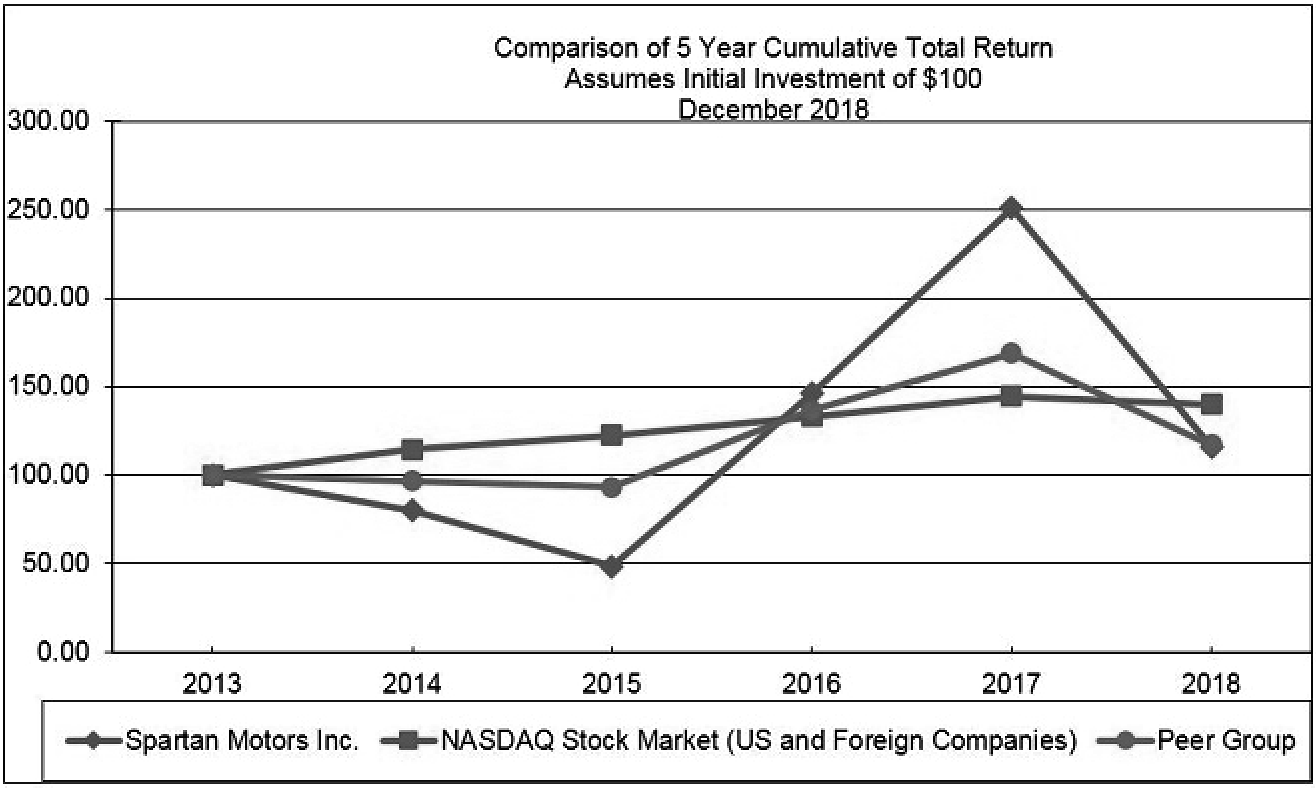
We paid dividends on our outstanding common shares in 2018, 2017 and 2016 as shown in the table below.

Date dividend declared	Record date	Payment date	Dividend per share ($)	Total dividend paid ($000)
Oct. 24, 2018	Nov. 14, 2018	Dec. 14, 2018	$ 0.05	$ 1,757
May 2, 2018	May 15, 2018	June 15, 2018	0.05	1,759
Oct. 24, 2017	Nov. 15, 2017	Dec. 15, 2017	0.05	1,753
May 2, 2017	May 15, 2017	June 15, 2017	0.05	1,755
Nov. 2, 2016	Nov. 15, 2016	Dec. 15, 2016	0.05	1,720
April 28, 2016	May 19, 2016	June 23, 2016	0.05	1,724

No assurance, however, can be given that any future distributions will be made or, if made, as to the amounts or timing of any future distributions as such distributions are subject to earnings, financial condition, liquidity, capital requirements, and such other factors as our Board of Directors deems relevant. The number of shareholders of record of our common stock on February 22, 2019 was 313. See Item 12 below for information concerning our equity compensation plans.

The following graph compares the cumulative total stockholder return on our common stock with the cumulative total return on the Nasdaq Composite Index and a company-selected peer group for the period beginning on December 31, 2013 and ending on the last day of 2018. The graph assumes an investment of $100 in our stock, the Nasdaq Composite Index and the company-selected peer group on December 31, 2013, and further assumes the reinvestment of all dividends. Stock price performance, presented for the period from December 31, 2013 to December 31, 2018, is not necessarily indicative of future results.

The company-selected peer group was determined based on a custom peer group of companies in the specialty manufacturing and automotive industries, against whom we compete for sales or management talent, which was identified for the purpose of benchmarking officer salaries in 2014. The peer group includes: LCI Industries, Inc. (formerly, Drew Industries, Inc.); Standard Motor Products, Inc.; Winnebago Industries, Inc.; Federal Signal Corp.; Methode Electronics, Inc.; Shiloh Industries, Inc.; Commercial Vehicle Group, Inc.; Altra Industrial Motion Corp.; Alamo Group, Inc.; ESCO Technologies, Inc.; Miller Industries, Inc.; and Twin Disc, Inc.



	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Spartan Motors, Inc.	$ 100.00	$ 79.98	$ 48.39	$ 146.05	$ 250.89	$ 116.26
NASDAQ Stock Market	$ 100.00	$ 114.43	$ 122.43	$ 133.21	$ 144.44	$ 140.17
Peer Group	$ 100.00	$ 96.66	$ 93.22	$ 136.60	$ 168.87	$ 117.25

The stock price performance graph and related information shall not be deemed “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference by any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate this information by reference.

Issuer Purchases of Equity Securities

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million shares of our common stock in open market transactions. At December 31, 2018 there were 0.9 million shares remaining under this repurchase authorization. If we were to repurchase the remaining 0.9 million shares of stock under the repurchase program, it would cost us $8.4 million based on the closing price of our stock on February 22, 2019. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

A summary of our purchases of our common stock during the fourth quarter of fiscal year 2018 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Number of Shares that May Yet Be Purchased Under the Plans or Programs
Oct. 1, 2018 to Oct. 31, 2018	-	$ -	-	1,000,000
Nov. 1, 2018 to Nov. 30, 2018	-	-	-	1,000,000
Dec. 1, 2018 to Dec. 31, 2018	90,000	7.28	-	910,000
Total	90,000	$ 7.28	-	910,000

Item 6. Selected Financial Data.

The selected financial data shown below for each of the five years in the period ended December 31, 2018 has been derived from our Consolidated Financial Statements. The following data should be read in conjunction with the Consolidated Financial Statements and related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Form 10-K.

Five-Year Operating and Financial Summary
(In Thousands, Except Per Share Data)

	2018	2017 (2)	2016	2015	2014
Sales (1)	$ 816,164	$ 707,098	$ 590,777	$ 550,414	$ 506,764
Cost of products sold (3)	717,607	617,655	518,113	502,783	450,702
Restructuring charges	302	208	136	519	808
Gross profit	98,255	89,235	72,528	47,112	55,254
Operating expenses:					
Research and development	7,332	6,523	6,772	4,560	3,851
Selling, general and administrative	73,381	65,497	56,172	52,695	51,205
Restructuring charges	1,429	1,044	959	2,336	1,349
Operating income (loss)	16,113	16,171	8,625	(12,479)	(1,151)
Other income (expense), net	1,160	(147)	78	(121)	77
Income (loss) before taxes	17,273	16,024	8,703	(12,600)	(1,074)
Income tax expense (benefit) (4)	2,261	90	100	4,880	(2,103)
Net earnings (loss)	15,012	15,934	8,603	(17,480)	1,029
Less: Net earnings (loss) attributable to non-controlling interest	-	(1)	(7)	(508)	(144)
Net earnings (loss) attributable to Spartan Motors, Inc.	$ 15,012	$ 15,935	$ 8,610	$ (16,972)	$ 1,173
Basic earnings (loss) per share	$ 0.43	$ 0.46	$ 0.25	$ (0.50)	$ 0.03
Diluted earnings (loss) per share	$ 0.43	$ 0.46	$ 0.25	$ (0.50)	$ 0.03
Cash dividends per common share	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Basic weighted average common shares outstanding	35,187	34,949	34,405	33,826	34,251
Diluted weighted average common shares outstanding	35,187	34,949	34,405	33,826	34,256
Balance Sheet Data:					
Net working capital (5)	$ 107,232	$ 89,055	$ 74,467	$ 82,764	$ 92,832
Total assets (5)	353,784	301,164	243,294	228,151	236,807
Long-term debt, including current portion	25,607	17,989	139	5,187	5,261
Shareholders' equity	186,082	168,269	152,952	148,491	168,618

(1) We adopted ASC 606 with a date of initial application of January 1, 2018 using the modified retrospective method. Therefore, the comparative information has not been adjusted and continues to be reported under prior revenue recognition guidance. See Note 1, "General and Summary of Accounting Policies" in Item 8, "Financial Statements and Supplementary Data" in this Annual Report for further discussion.

(2) On January 1, 2017, we acquired Smeal. Smeal has been included in our consolidated results of operations starting on the acquisition date. See Note 2, "Acquisition Activities" in Item 8, "Financial Statements and Supplementary Data" in this Annual Report for further discussion.

(3) Beginning in 2015, certain engineering costs related to routine product changes that were formerly classified within Research and development have been classified within Cost of products sold to more consistently align the results of our individual business units. Expenses of $7,825 for 2014 have been reclassified accordingly.

(4) See Note 8, "Taxes on Income" in Item 8, "Financial Statements and Supplementary Data" in this Annual Report for a discussion of material items impacting the 2018, 2017 and 2016 income tax provisions.

(5) Beginning in the second quarter of 2016, we adopted a new accounting pronouncement which requires net deferred tax assets and liabilities to be classified as non-current on the Consolidated Balance Sheets. We retrospectively adopted this standard, and accordingly our Net working capital and Total assets for prior periods are shown reflecting this change.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Spartan Motors, Inc. was organized as a Michigan corporation on September 18, 1975, and is headquartered in Charlotte, Michigan. Spartan Motors began development of its first product that same year and shipped its first fire truck chassis in October 1975.

We are a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific up-fit segments), emergency response and recreational vehicle industries. Our operating activities are conducted through our wholly-owned operating subsidiary, Spartan Motors USA, Inc. ("Spartan USA"), with locations in Charlotte, Michigan; Brandon, South Dakota; Ephrata, Pennsylvania; Snyder and Neligh, Nebraska; Bristol, Indiana; Kansas City, Missouri; Ladson, South Carolina; Pompano Beach, Florida; and Saltillo, Mexico.

Our Bristol, Indiana location manufactures vehicles used in the parcel delivery, mobile retail and trades and construction industries, and supplies related aftermarket parts and services under the Utilimaster brand name. Our Kansas City, Missouri and Saltillo, Mexico locations sell and install equipment used in fleet vehicles. On December 17, 2018, the Company acquired the assets and assumed limited liabilities of Strobes-R-Us, Inc. ("SRUS"), a Florida based non-public company. SRUS is a premier provider of up-fit services for government and non-government vehicles. Our Charlotte, Michigan location manufactures heavy-duty chassis and vehicles, and supplies aftermarket parts and accessories under the Spartan Chassis and Spartan ER brand names. Our Brandon, South Dakota; Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania locations manufacture emergency response vehicles under the Spartan ER, Smeal, US Tanker and Ladder Tower brand names. In June 2018, we implemented a plan to close our Delavan, Wisconsin facility and consolidate production with our Brandon, South Dakota facility. Spartan USA was also a participant in Spartan-Gimaex Innovations, LLC ("Spartan-Gimaex"), a 50/50 joint venture with Gimaex Holding, Inc. that was formed to provide emergency response vehicles for the domestic and international markets. Spartan-Gimaex is reported as a consolidated subsidiary of Spartan Motors, Inc. In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. In February 2017, by agreement of the parties, the court proceeding was dismissed with prejudice and the judge entered an order to this effect as the parties agreed to seek a dissolution plan on their own. The Company is continuing to work on this dissolution plan and no dissolution terms have been determined as of the date of this Form 10-K.

Our business strategy is to further diversify product lines and develop innovative design, engineering and manufacturing expertise in order to be the best value producer of custom vehicle products. Our diversification across several sectors provides numerous opportunities while reducing overall risk. Additionally, our business model provides the agility to quickly respond to market needs, take advantage of strategic opportunities when they arise and correctly size operations to ensure stability and growth.

We have an innovative team focused on building lasting relationships with our customers. This is accomplished by striving to deliver premium custom vehicles, vehicle components, and services. We believe we can best carry out our long-term business plan and obtain optimal financial flexibility by using a combination of borrowings under our credit facilities, as well as internally or externally generated equity capital, as sources of expansion capital.

Executive Overview

- Revenue of $816.2 million in 2018, compared to $707.1 million in 2017.
- Gross Margin of 12.0% in 2018, compared to 12.6% in 2017.
- Operating expense of $82.1 million, or 10.1% of sales in 2018, compared to $73.1 million or 10.3% of sales in 2017.
- Operating income of $16.1 million in 2018, compared to $16.2 million in 2017.
- Income tax expense of $2.3 million in 2018, compared to $0.1 million in 2017.
- Net income of $15.0 million in 2018, compared to $15.9 million in 2017.
- Earnings per share of $0.43 in 2018, compared to $0.46 in 2017.
- Operating cash flow of $8.0 million in 2018, compared to $22.0 million in 2017.
- Order backlog of $473.0 million at December 31, 2018, compared to $535.1 million at December 31, 2017.

The following table shows our sales by market for the years ended December 31, 2018, 2017 and 2016 as a percentage of total sales:

	2018	2017	2016
Fleet vehicles	50.3%	35.5%	47.1%
Motor home chassis	18.3%	17.6%	16.6%
Other vehicles	0.0%	2.6%	2.6%
Total business/consumer	**68.6%**	**55.7%**	**66.3%**
Emergency response vehicles	28.8%	41.5%	29.7%
Defense vehicles	0.0%	0.0%	1.0%
Aftermarket parts and accessories	2.6%	2.8%	3.0%
Total government	**31.4%**	**44.3%**	**33.7%**

We continue to focus on growth by expanding our market share in existing markets, pursuing new commercial opportunities through our alliance with Isuzu and other manufacturers and pursuing strategic acquisitions that enable us to expand into existing or new markets as opportunities occur.

We believe we are well positioned to take advantage of long-term opportunities, and continue our efforts to bring product innovations to each of the markets we serve. Some of our recent innovations and strategic developments include:

- Our diversified business model. We believe the major strength of our business model is market diversity and customization. Our Fleet Vehicles and Specialty Chassis and Vehicles segments serve mainly business and consumer markets, effectively diversifying our company and complementing our Emergency Response Vehicles segment, which primarily serves governmental entities. Additionally, the fleet vehicle market is an early-cycle industry, complementary to the late-cycle emergency response vehicle industry. We intend to continue to pursue additional areas that build on our core competencies to diversify our business further.

- Our alliance with Motiv Power Systems, a leading producer of all-electric chassis for walk-in vans, box trucks, work trucks, buses and other specialty vehicles that provides Spartan with exclusive access to Motiv's EPIC™ all-electric chassis in manufacturing Class 4 – Class 6 walk-in vans. This alliance demonstrates Spartan's ability to innovate and advance the markets we serve, and places us ahead of the curve in the EV fleet market.

- Our expansion into the equipment up-fit market for vehicles used in the parcel delivery, trades and construction industries. This rapidly expanding market offers an opportunity to add value to current and new customers for our fleet vehicles and vehicles produced by other original equipment manufacturers.

- Spartan introduced its refrigeration technology to demonstrate our ability to apply the latest technical advancements with our unique understanding of last-mile delivery optimization. Utilimaster's Work-Driven Design™ process provides best-in-class conversion solutions in walk-in vans, truck bodies, and cargo van vehicles. The refrigerated van is up-fitted to optimally preserve cold cargo quality while offering customizations such as removable bulkheads and optional thermal curtains. The multi-temperature solution requires no additional fuel source, so it can serve a wide variety of categories from food and grocery to time and temperature sensitive healthcare deliveries.

- The introduction of the K1 360 chassis. The K1 360 chassis combines the craftsmanship of the coach manufacturer with our best-in-class chassis quality and durability for a luxury motor coach in a more nimble package. This chassis features an independent front suspension package, complete with custom-tuned shocks and a heavy-duty 360 horsepower diesel engine to provide drivers with superior ride and handling.

- Spartan Connected Coach, a technology bundle for our motor home chassis that includes a 15-inch digital dash displaying gauge functions, tire pressure monitoring, blind spot indicators, navigation, and other information. Connected Coach also offers passive keyless start and adjustable Adaptive Cruise Control, and brings proven automotive technology to the RV market.

- The introduction of the Velocity, a new delivery vehicle design that combines the productivity of a walk-in van for multi-stop deliveries with the superior fuel economy of the Ford Transit chassis.

- The strength of our balance sheet, which includes robust working capital, low debt and access to credit through our revolving line of credit.

The following section provides a narrative discussion about our financial condition and results of operations. Certain amounts in the narrative may not sum due to rounding. The comments should be read in conjunction with our Consolidated Financial Statements and related Notes thereto appearing in Item 8 of this Form 10-K.

Results of Operations

The following table sets forth, for the periods indicated, the components of our consolidated statements of income, as a percentage of revenues (percentages may not sum due to rounding):

	Year Ended December 31,		
	2018	2017	2016
Sales	100.0	100.0	100.0
Cost of products sold	88.0	87.4	87.7
Gross profit	12.0	12.6	12.3
Operating expenses:			
Research and development	0.9	0.9	1.1
Selling, general and administrative	9.0	9.4	9.7
Restructuring	0.2	-	-
Operating income	2.0	2.3	1.5
Other income, net	0.1	-	-
Income before taxes on income	2.1	2.3	1.5
Income tax expense	0.3	-	-
Net earnings	1.8	2.3	1.5
Non-controlling interest	-	-	-
Net earnings attributable to Spartan Motors, Inc.	1.8	2.3	1.5

Year Ended December 31, 2018 compared to Year Ended December 31, 2017

Revenue

Consolidated sales for the year ended December 31, 2018 increased by $109.1 million, or 15.4% to $816.2 million from $707.1 million in 2017. Revenue in our Fleet Vehicles and Services segment increased by $136.4 million, mainly due to an increase in vehicle sales in 2018, while revenue in our Specialty Chassis and Vehicles segment increased by $34.4 million driven by strong shipments of motor home chassis. Revenue in our Emergency Response Vehicles segment decreased by $57.2 million and an increase in inter-segment eliminations of $4.6 million. These changes in revenue are discussed more fully in the discussion of our segments below.

Cost of Products Sold
Cost of products sold increased by $99.9 million, or 16.2%, to $717.6 million for the year ended December 31, 2018 from $617.7 million in 2017, primarily due to increased sales volume in 2018. Cost of products sold increased by $120.7 million due to the higher sales volumes, $1.2 million due to start-up costs incurred at our truck body operations in Ephrata, Pennsylvania, $6.2 million due to tariffs, commodity and component cost increases of $2.1 million in 2018, and $1.5 million due to chassis disruptions and resulting freight and other costs in 2018. These increases were partially offset by decreases of $12.0 million due to the product mix in 2018 and $7.5 million due to operational and organizational improvements in 2018. Our adoption of ASC 606 on January 1, 2018 resulted in an additional $12.4 million decrease in cost of products sold recorded during 2018 compared to what would have been recorded under previous guidance, mainly due to the timing of vehicle production and shipments. As a percentage of sales, cost of products sold increased to 87.9% in 2018, compared to 87.4% in 2017. Approximately 70 basis points of the increase was due to volume changes that impacted 2018. This increase was partially offset by a 10 basis point decrease due to product mix and a 10 basis point decrease due to the adoption of ASC 606.

Gross Profit
Gross profit increased by $9.1 million, or 10.2%, to $98.3 million in 2018 from $89.2 million in 2017. Savings from increased operational efficiency in 2018 contributed $6.4 million to the increase, while higher overall sales volume contributed $13.2 million to the increase. Lower recall and warranty related charges in 2018 contributed $0.4 million to the increase and pricing adjustments impacting 2018 sales contributed $4.6 million to the increase. These increases were partially offset by a reduction in gross profit of $4.6 million due to a less favorable overall product mix, $8.3 million in tariff-driven commodity and component cost increases, $1.2 million due to start-up costs incurred in our Ephrata truck body operations and $1.5 million due to chassis disruptions and resulting freight and other costs in 2018 compared to 2017. Our adoption of ASC 606 on January 1, 2018 resulted in a $0.4 million decrease in gross profit compared to what would have been recorded under previous guidance, mainly due to the timing of vehicle production and shipments.

Gross Margin
Gross margin decreased by 60 basis points to 12.0% in 2018 from 12.6% in 2017. This decrease was largely due to a 70 basis point decrease from unfavorable product mix, a 130 basis point decrease for tariff driven commodity and component cost increases, chassis disruptions and resulting freight and other costs and a 20 basis point decrease for the costs incurred in our Ephrata truck body operations in 2018. Partially offsetting the decreases were operational efficiencies that added 90 basis points and pricing adjustments that added 70 basis points to gross margin in 2018.

Operating Expenses
Operating expenses for the year ended December 31, 2018 increased by $9.0 million, or 12.3%, to $82.1 million from $73.1 million in 2017. Research and development expense increased by $0.8 million in 2018, due to higher engineering project spending. Selling, general and administrative expense increased by $7.9 million, to $73.4 million in 2018 from $65.5 million in 2017. Legal and professional fees increased $2.7 million due to an increase in acquisition activities, trade shows and other promotional activities increased $1.8 million and $3.2 million was due to an increase in information technology related spending. Restructuring charges recorded in 2018 increased $0.4 million compared to 2017, as we continued with various operational improvement projects.

Income Tax Expense
Income tax expense for the year ended December 31, 2018 was $2.3 million as compared to the prior year at $0.1 million. Our effective tax rate in 2018 at 13.1%, compared to 0.6% in 2017.

The 2018 effective tax rate was lower than the federal statutory rate of 21% primarily due to a discrete tax benefit of $1.4 million from tax windfalls caused by the vesting of certain stock compensation. The 2018 effective rate was higher than the 2017 rate due to a number of significant one-time adjustments whose net effect reduced our 2017 effective tax rate and did not recur in 2018. Certain of these adjustments included a $3.0 million charge for the remeasurement of our deferred tax assets due to the Tax Act, offset by a $6.5 million reduction in our valuation allowance related to temporary differences between book and tax bases in assets and liabilities and a $1.0 million benefit from the disposal of stock in an inactive subsidiary that had been deemed worthless.

Net Earnings
Net earnings for the year ended December 31, 2018 decreased by $0.9 million, or 5.8%, to $15.0 million compared to $15.9 million in 2017. Driving this decrease was the increase in operating expenses of $9.0 million and the $2.2 million increase in income tax expense as discussed above.

Net Loss Attributable to Non-Controlling Interest
Net loss attributable to non-controlling interest consists of the portion of the after-tax loss related to the Spartan-Gimaex joint venture that is attributable to our joint venture partner, and was immaterial for the years ended December 31, 2018 and 2017.

Net Earnings Attributable to Spartan Motors, Inc.
Net earnings attributable to Spartan Motors, Inc. for the year ended December 31, 2018 decreased by $0.9 million to $15.0 million compared to $15.9 million in 2017. Driving this decrease was the operating expenses increase of $9.0 million and the $2.2 million increase in income tax expense, partially offset by the increase in gross profit as discussed above. On a per share basis, net earnings decreased by $0.03 to $0.43 per share in 2018 compared to $0.46 per share in 2017, due to the factors discussed above.

Year Ended December 31, 2017 compared to Year Ended December 31, 2016

Revenue
Consolidated sales for the year ended December 31, 2017 increased by $116.3 million, or 19.7% to $707.1 million from $590.8 million in 2016, driven by our acquisition of Smeal on January 1, 2017. Revenue in our Emergency Response Vehicles segment increased by $119.9 million, mainly due to our acquisition of Smeal. Revenue in our Fleet Vehicles and Services segment decreased by $27.3 million, mainly due to a reduction in equipment up-fit orders received in 2017, while revenue in our Specialty Chassis and Vehicles segment increased by $24.0 million driven by strong shipments of motor home chassis. These changes in revenue are discussed more fully in the discussion of our segments below.

Cost of Products Sold
Cost of products sold increased by $99.7 million, or 19.2%, to $617.9 million for the year ended December 31, 2017 from $518.2 million in 2016, primarily due to increased sales volume in 2017 driven by our acquisition of Smeal on January 1, 2017.

Gross Profit
Gross profit increased by $16.7 million, or 23.0%, to $89.2 million in 2017 from $72.5 million in 2016. Savings from increased operational efficiency in 2017 contributed $13.8 million to the increase, while the Smeal acquisition and higher overall non-Smeal sales volume contributed $7.1 million and $3.0 million, respectively, to the increase. Lower recall and warranty related charges in 2017 contributed $5.4 million to the increase while pricing adjustments impacting 2017 sales contributed $1.5 million to the increase. These increases were partially offset by a reduction in gross profit of $14.1 million due to a less favorable overall product mix in 2017 compared to 2016.

Gross Margin
Gross margin increased by 30 basis points to 12.6% in 2017 from 12.3% in 2016. Operational efficiency added 170 basis points to gross margin in 2017, while reduction of recall and warranty expense added 70 basis points and pricing adjustments added 20 basis points. These increases were largely offset by a 200 basis point decrease due to the unfavorable product mix in 2017.

Operating Expenses
Operating expenses for the year ended December 31, 2017 increased by $9.2 million, or 14.4%, to $73.1 million from $63.9 million in 2016. Research and development expense decreased by $0.3 million in 2017, due to lower engineering project spending, mainly related to our discontinuation from the bidding process for the USPS next generation vehicle. Selling, general and administrative expense increased by $9.3 million, to $65.5 million in 2017 from $56.2 million in 2016. $6.0 million of this increase was due our acquisition of Smeal on January 1, 2017, while $3.0 million was due to an increase in legal and professional fees, largely related to acquisition activities, and $0.3 million was due to an increase in information technology related spending. Restructuring charges recorded in 2017 were relatively flat with 2016, as we continued with various operational improvement projects.

Income Tax Expense
Income tax expense for the year ended December 31, 2017 was flat with the prior year at $0.1 million. Our effective tax rate in 2017 was 0.6%, compared to 1.1% in 2016.

In 2017 higher Income before taxes caused a $2.7 million increase to federal income taxes at the statutory rate as compared to 2016. This increase to current income tax expense was favorably offset by three items that had not occurred in 2016: a $1.0 million benefit from the write-off of the tax basis of stock owned by the Company in an inactive, wholly-owned subsidiary that had been deemed worthless; $0.5 million adjustment related to the domestic manufacturing deduction; and a $0.4 million credit from the adoption in 2017 of new accounting guidance regarding the treatment of tax windfalls caused by the vesting of certain stock compensation.

The write-off of the worthless stock in the inactive subsidiary caused us to forfeit certain state credit and net operating loss carry-forwards recorded in our deferred tax assets at $3.0 million, which were written off to deferred income tax expense. These carry-forwards had been fully offset by a valuation allowance, which was consequently reduced by $3.0 million. During 2017 we had determined that it was more likely than not that the benefit from our deferred tax assets would be realizable, and recorded an additional $6.5 million reduction to our valuation allowance. Therefore, in 2017 we reduced our valuation allowance by $9.5 million in total, $6.6 million greater than the reduction recorded in 2016. Partially offsetting that reduction was a $3.0 million decrease to the deferred tax assets due to the reduction in the federal corporate income tax rate from 35% to 21%. This rate reduction was a component of the Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017 and effective January 1, 2018. The re-measurement of our deferred tax assets to the new rate was recorded in accordance with current accounting guidance as deferred income tax expense.

Net Earnings
Net earnings for the year ended December 31, 2017 increased by $7.3 million, or 84.9%, to $15.9 million compared to $8.6 million in 2016. Driving this increase were the increase in gross profit of $16.7 million, which was partially offset by the $9.2 million increase in operating expenses as discussed above.

Net Loss Attributable to Non-Controlling Interest
Net loss attributable to non-controlling interest consists of the portion of the after-tax loss related to the Spartan-Gimaex joint venture that is attributable to our joint venture partner, and was immaterial for the years ended December 31, 2017 and 2016.

Net Earnings Attributable to Spartan Motors, Inc.
Net earnings attributable to Spartan Motors, Inc. for the year ended December 31, 2017 increased by $7.3 million to $15.9 million compared to $8.6 million in 2016. Driving this increase were the increases in gross profit of $16.7 million, which was partially offset by the $9.2 million increase in operating expenses as discussed above. On a per share basis, net earnings increased by $0.21 to $0.46 per share in 2017 compared to $0.25 per share in 2016, due to the factors discussed above.

Our Segments

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision makers to assess segment performance and allocate resources among our operating units. We have three reportable segments: Fleet Vehicles and Services, Emergency Response Vehicles, and Specialty Chassis and Vehicles. Our Specialty Chassis and Vehicles segment now manufactures certain fleet vehicles due to a realignment of our operating segments completed during the second quarter of 2017. These vehicles are sold via intercompany transactions to our Fleet Vehicles and Services segment, which then sells the vehicles to the final customer. Segment results from prior periods reflect the estimated impact of this realignment as if it had been in place for those periods.

We evaluate the performance of our reportable segments based on Adjusted EBITDA. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and other adjustments made in order to present comparable results from period to period. These adjustments include expenses associated with restructuring actions taken to improve the efficiency and profitability of certain of our manufacturing operations, and various items related to business acquisition and strategic planning activities. We exclude these items from earnings because we believe they are incurred infrequently and/or are otherwise not indicative of a segment's regular, ongoing operating performance. For those reasons, Adjusted EBITDA is also used as a performance metric for our executive compensation program, as discussed in our proxy statement for our 2018 annual meeting of shareholders, which proxy statement was filed with the SEC on April 12, 2018.

The table below presents the reconciliation of our consolidated income before taxes to total segment Adjusted EBITDA. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income. Adjusted EBITDA may have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. In addition, although we have excluded certain charges in calculating Adjusted EBITDA, we may in the future incur expenses similar to these adjustments, despite our assessment that such expenses are infrequent and/or not indicative of our regular, ongoing operating performance. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or infrequent items.

	Year Ended December 31		
	2018	2017	2016
Consolidated income before taxes	$ 17,273	$ 16,024	$ 8,703
Add (subtract):			
Interest expense	1,080	864	410
Depreciation and amortization expense	10,370	9,937	7,903
Restructuring and other related charges	1,881	1,252	1,095
Acquisition expense	1,952	1,354	882
Recall expense	(46)	(368)	3,457
Litigation settlements	447	-	-
Long-term strategic planning expense	995	-	-
Impact of inter-company chassis shipments to Smeal	-	2,073	-
Impact of inventory fair value step-up	-	189	-
Impact of acquisition adjustments for net working capital and contingent liability	(2,193)	-	-
Asset impairment	-	-	406
Joint venture expenses	-	2	14
Unallocated corporate expenses	14,683	12,881	9,159
Total segment adjusted EBITDA	$ 46,442	$ 44,208	$ 32,029

Our Fleet Vehicles and Services segment consists of our operations at our Bristol, Indiana location, along with our operations at our up-fit centers in Kansas City, Missouri, Ladson, South Carolina, Pompano Beach, Florida and Saltillo, Mexico. This segment focuses on designing and manufacturing walk-in vans for the parcel delivery, mobile retail, and trades and construction industries, and supplies related aftermarket parts and services under the Utilimaster brand name.

Our Emergency Response Vehicles segment consists of the emergency response chassis operation at our Charlotte, Michigan location and our operations at our Brandon, South Dakota; Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania locations. This segment engineers and manufactures emergency response chassis and vehicles.

Our Specialty Chassis and Vehicles segment consists of our Charlotte, Michigan operations that engineer and manufacture motor home chassis, defense vehicles and other specialty chassis and distribute related aftermarket parts and assemblies.

Appropriate expense amounts are allocated to the three reportable segments and are included in their reported operating income or loss.

The accounting policies of the segments are the same as those described, or referred to, in Note 1 - *General and Summary of Accounting Policies*. Assets and related depreciation expense in the column labeled "Eliminations and other" pertain to capital assets maintained at the corporate level. Eliminations for inter-segment sales are shown in the column labeled "Eliminations and other". Segment loss from operations in the "Eliminations and other" column contains corporate related expenses not allocable to the operating segments. Interest expense and Taxes on income are not included in the information utilized by the chief operating decision makers to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below.

For certain financial information related to each segment, see Note 16, *Business Segments*, of the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K.

Fleet Vehicles and Services

Segment Financial Data
(Dollars in Thousands)

	Year Ended December 31,					
	2018		**2017**		**2016**	
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Sales	$ 387,549	100.0%	$ 251,095	100.0%	$ 278,389	100.0%
Adjusted EBITDA	$ 26,680	6.9%	$ 26,958	10.7%	$ 31,237	11.2%
Segment assets	$ 117,508		$ 60,550		$ 65,277	

Year ended December 31, 2018 compared to year ended December 31, 2017

Sales in our Fleet Vehicles and Services segment increased by $136.4 million, or 54.3%, to $387.5 million in 2018 from $251.1 million in 2017. This increase was driven by a $105.0 million increase in vehicle sales mainly due to higher unit volume and a $29.3 million increase in aftermarket parts and accessories sales mainly due to higher up-fit and truck body sales in 2018. Our adoption of ASC 606 on January 1, 2018 resulted in an additional $2.1 million increase in revenue recognized during the period compared to what would have been recognized under previous guidance, mainly due to the timing of vehicle production and shipments.

Adjusted EBITDA for our Fleet Vehicles and Services segment was $26.7 million for the year ended December 31, 2018, a decrease of $0.3 million compared to $27.0 million for the year ended December 31, 2017. This decrease was due to tariffs of $5.0 million, product mix of $4.0 million, commodity and component cost increases of $2.1 million and $1.2 million of start-up costs incurred in our Ephrata truck body manufacturing operation. These decreases were partially offset by the impact of $11.9 million in higher volume.

Order backlog for our Fleet Vehicles and Services segment decreased by $48.9 million, or 18.3%, to $218.8 million in 2018 compared to $267.7 million in 2017, driven by the partial build-out of the $214 million contract to supply delivery vehicles to the United States Postal Service we received in September, 2017 which was partially offset by a $48.3 million increase in the backlog for other fleet vehicles. Our high quality backlog enables strong visibility into future net sales which can normally range from two to twelve months depending on the product. This visibility allows us to more effectively plan and predict our sales and production activity.

Year ended December 31, 2017 compared to year ended December 31, 2016

Sales in our Fleet Vehicles and Services segment decreased by $27.3 million, or 9.8%, to $251.1 million in 2017 from $278.4 million in 2016. $28.7 million of the decrease was due to lower equipment up-fit sales, driven by an order from 2016 that did not extend into 2017, partially offset by a more favorable mix of vehicle sales driven by a change in our truck body sales strategy. International sales accounted for 5.1% of revenue in our Fleet Vehicles and Services segment in 2017.

Adjusted EBITDA for our Fleet Vehicles and Services segment was $27.0 million for the year ended December 31, 2017, a decrease of $4.2 million compared to $31.2 million for the year ended December 31, 2016. $12.1 million of this decrease was due to lower parts and up-fit sales in 2017, which was partially offset by an increase in operational efficiency related to vehicle production.

Order backlog for our Fleet Vehicles and Services segment increased by $178.2 million, or 198.9%, to $267.7 million in 2017 compared to $89.5 million in 2016, mainly due to the award of a $214 million contract to supply truck bodies to the United States Postal Service we received in September, 2017 which was partially offset by an $35.9 million decrease in the backlog for other fleet vehicles.

Emergency Response Vehicles

Segment Financial Data
(Dollars in Thousands)

	Year Ended December 31,					
	2018		2017		2016	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Sales	$ 245,637	100.0%	$ 302,850	100.0%	$ 182,981	100.0%
Adjusted EBITDA	$ 1,030	0.4%	$ 3,192	1.1%	$ (7,542)	(4.1)%
Segment assets	$ 125,338		$ 133,546		$ 77,887	

Year ended December 31, 2018 compared to year ended December 31, 2017

Sales in our Emergency Response Vehicles segment decreased by $57.2 million, or 18.9%, in 2018 compared to 2017. Lower production volume, driven by revenue that was recognized in the first half of 2017 for delayed shipments of Smeal trucks which were nearly completed at the time of our acquisition on January 1, 2017, accounted for $23.2 million of the decrease. An additional $11.7 million decrease in volume reflected an industry-wide decline in fire apparatus sales and an $11.6 million decrease was caused by product mix changes in 2018. These decreases were partially offset by a $4.2 million increase due to pricing changes in 2018. Our adoption of ASC 606 on January 1, 2018 resulted in an additional decrease of $14.9 million of revenue in our Emergency Response Vehicles segment compared to what would have been recognized under previous guidance. International sales accounted for 14.8% of revenue in our Emergency Response Vehicles segment in 2018.

Adjusted EBITDA for our Emergency Response Vehicles segment was $1.0 million for the year ended December 31, 2018, a decrease of $2.2 million compared to $3.2 million for the year ended December 31, 2017. Decreases in adjusted EBITDA were due to volume of approximately $5.7 million, tariffs of $0.7 million, commodity and component cost increases of $0.3 million, product mix of $0.9 million and warranty and other costs of $0.5 million. These decreases were partially offset by the increase from pricing changes of $4.2 million and operational improvements of $2.1 million. Our adoption of ASC 606 on January 1, 2018 resulted in an additional $0.4 million decrease in revenue recognized during the period compared to what would have been recognized under previous guidance, mainly due to the timing of vehicle production and shipments.

Order backlog for our Emergency Response Vehicles segment decreased by $17.1 million or 7.3% to $216.5 million at December 31, 2018 compared to $233.6 million in 2017, primarily due to our adoption of ASC 606 which resulted in changes to our revenue recognition policy whereby we now recognize revenue on certain of our products as they are produced rather than at the time of shipment to the customer. Our high quality backlog enables strong visibility into future net sales which can normally range from six to twelve months depending on the product. This visibility allows us to more effectively plan and predict our sales and production activity.

Year ended December 31, 2017 compared to year ended December 31, 2016

Sales in our Emergency Response Vehicles segment increased by $119.9 million, or 65.5%, from 2016 to 2017 driven by the acquisition of Smeal in January of 2017, along with a $2.0 million increase due to pricing changes in 2017. These increases were partially offset by a $5.2 million decrease due to lower volume outside of the Smeal acquisition and a $1.6 million decrease due to the product mix sold in 2017. International sales accounted for 22.4% of revenue in our Emergency Response Vehicles segment in 2017.

Adjusted EBITDA for our Emergency Response Vehicles segment was $3.2 million for the year ended December 31, 2017, an increase of $10.7 million compared to $(7.5) million for the year ended December 31, 2016. The acquisition of Smeal added $3.3 million while volume and operational productivity improvements added $3.5 million to the increase in adjusted EBITDA, respectively. Pricing changes impacting 2017 revenue added $2.0 million, while lower warranty related costs added $1.9 million to the increase in adjusted EBITDA.

Order backlog for our Emergency Response Vehicles segment increased by $93.7 million or 67.0% to $233.6 million at December 31, 2017 compared to $139.9 million in 2016, driven by the acquisition of Smeal in January of 2017.

Specialty Chassis and Vehicles

Segment Financial Data
(Dollars in Thousands)

	Year Ended December 31,					
	2018		2017		2016	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Sales	$ 193,199	100.0%	$ 158,810	100.0%	$ 134,754	100.0%
Adjusted EBITDA	$ 18,732	9.7%	$ 14,058	8.9%	$ 8,334	6.2%
Segment assets	$ 32,621		$ 33,700		$ 28,825	

Year ended December 31, 2018 compared to year ended December 31, 2017

Sales in our Specialty Chassis and Vehicles segment increased by $34.4 million, to $193.2 million in 2018 compared to $158.8 million in 2017. Motor home chassis sales increased by $24.9 million due to higher unit volume in 2018, which was partially offset by a $1.4 million reduction due to an unfavorable sales mix. Sales of other specialty vehicles and aftermarket parts increased by $4.1 million and $1.7 million in 2018 due to higher unit volumes. Intercompany sales of fleet vehicles increased by $4.7 million due to higher unit volume in 2018. Pricing changes that impacted the year ended December 31, 2018 resulted in increased revenue of $0.4 million. Our adoption of ASC 606 in January 2018 had an immaterial impact on revenue in our Specialty Chassis and Vehicles segment.

Adjusted EBITDA for our Specialty Chassis and Vehicles segment was $18.7 million for the year ended December 31, 2018, an increase of $4.6 million compared to $14.1 million for the year ended December 31, 2017. This increase was driven by a $4.3 million increase related to higher motorhome chassis sales volume and a $1.0 million increase in other specialty vehicles and related products in 2018. The increases were partially offset by decreases related to product mix of $0.5 million and tariff related costs of $0.2 million. Our adoption of ASC 606 in January 2018 had an immaterial impact on adjusted EBITDA in our Specialty Chassis and Vehicles segment.

Order backlog for our Specialty Chassis and Vehicles segment increased by $3.9 million, or 11.5%, to $37.7 million at December 31, 2018 compared to $33.8 million at December 31, 2017. This increase was due primarily to a $3.4 million increase in backlog for motor home chassis in 2018. Our high quality backlog enables strong visibility into future net sales which can normally range from less than one month to twelve months depending on the product. This visibility allows us to more effectively plan and predict our sales and production activity.

Year ended December 31, 2017 compared to year ended December 31, 2016

Sales in our Specialty Chassis and Vehicles segment increased by $24.0 million, to $158.8 million in 2017 compared to $134.8 million in 2016. Motor home chassis sales increased by $26.6 million due to higher unit volumes, which was partially offset by a $0.5 million decrease due to pricing that impacted 2017 sales. Other specialty vehicle sales decreased by $2.7 million, driven by defense sales in 2016 that did not recur in 2017. These increases were partially offset by a decrease of $0.2 million in aftermarket parts and accessories sales due to decreased unit volumes.

Adjusted EBITDA for our Specialty Chassis and Vehicles segment was $14.1 million for the year ended December 31, 2017, an increase of $5.8 million compared to $8.3 million for the year ended December 31, 2016. Operational efficiencies in 2017 resulted in an increase of $4.0 million, while higher unit volume, mainly in motor home chassis, added $2.2 million to the increase in adjusted EBITDA. These increases were partially offset by a $0.5 million decrease due to pricing adjustments that impacted 2017.

Order backlog for our Specialty Chassis and Vehicles segment increased by $13.8 million, or 69.0%, to $33.8 million at December 31, 2017 compared to $20.0 million at December 31, 2016. This increase was due to a $14.5 million increase in backlog for motor home chassis, which was partially offset by a $0.7 million decrease in aftermarket parts and accessories backlog in 2016.

Financial Condition

Balance sheet at December 31, 2018 compared to December 31, 2017

Accounts receivable increased by $23.7 million, or 28.5%, to $106.8 million at December 31, 2018, compared to $83.1 million at December 31, 2017. The increase is the result of increases of $35.6 million in Fleet Vehicles and Services due to higher sales volume in the latter half of the fourth quarter of 2018 compared to sales in the latter half of the fourth quarter of 2017. This increase was partially offset by a decrease of $12.1 million in our Emergency Response segment due to lower sales volume in the fourth quarter of 2018.

Inventory decreased by $7.7 million, or 9.9%, to $70.0 million at December 31, 2018 compared to $77.7 million at December 31, 2017 mainly due to the $21.6 million transfer of in-process production to contract assets as a result of adopting the new revenue recognition standard on January 1, 2018. This decrease was offset by an increase at our Fleet Vehicles and Services segment of $14.4 million due to the ramp up of production primarily related to the USPS build.

Contract assets increased to $36.0 million at December 31, 2018 compared to $0 at December 31, 2017 due to adopting the new revenue recognition standard on January 1, 2018, whereby we now recognize a contract asset for performance obligations that have been completed but have not yet been invoiced to the customer.

Goodwill increased by $6.4 million, or 23.4%, to $33.8 million at December 31, 2018 compared to $27.4 million at December 31, 2017 due to the Strobes-R-Us acquisition.

Accounts payable increased by $35.8 million, or 88.2%, to $76.4 million at December 31, 2018 from $40.6 million at December 31, 2017. $26.6 million of the increase was due to ramp-up of production related to the USPS truck body build, with the remainder of the increase due to the timing of payments.

Accrued warranty decreased by $2.2 million, or 12.0%, to $16.1 million at December 31, 2018 from $18.3 million at December 31, 2017, due to payments for repairs made during the year of $10.8 million, offset by $7.5 million for accruals for warranties provided on vehicles produced during the year and additional accruals of $1.2 million for changes in existing warranties.

Accrued compensation and related taxes decreased by $2.8 million or 21.1% to $10.5 million at December 31, 2018 compared to $13.3 million at December 31, 2017 due to the payout of accrued 2017 incentive compensation in the first quarter of 2018 and lower anticipated payouts in the first quarter of 2019.

Deposits from customers decreased by $2.8 million or 11.0% to $22.6 million at December 31, 2018 compared to $25.4 million at December 31, 2017. The decrease was due to more prepayments being applied to invoices for fulfilled orders than were received during 2018 for new orders in our Emergency Response Vehicles segment.

Other non-current liabilities decreased by $1.1 million, or 21.2%, to $4.1 million at December 31, 2018 from $5.2 million at December 31, 2017 due to a $0.8 million decrease in our supplemental executive retirement plan liabilities and a $0.3 million decrease in other liabilities.

Balance sheet at December 31, 2017 compared to December 31, 2016

Accounts receivable increased by $17.7 million, or 27.1%, to $83.1 million at December 31, 2017, compared to $65.4 million at December 31, 2016. $16.1 million of the increase was due to accounts receivable acquired through our acquisition of Smeal, with the remainder of the increase due to the timing of invoicing.
Inventory increased by $18.8 million, or 31.9%, to $77.7 million at December 31, 2017 compared to $58.9 million at December 31, 2016 mainly due to the addition of Smeal inventory of $26.1 million at December 31, 2017, offset by a decrease of $7.3 million in our Emergency Response Vehicles segment due to a continued focus on inventory reduction actions.

Property, plant and equipment, net increased by $2.1 million, or 4.0%, to $55.2 million at December 31, 2017 compared to $53.1 million at December 31, 2016 mainly due to the acquisition of Smeal during the year which resulted in assumption of $5.8 million along with additional purchases of $5.3 million during the year. These increases were offset by depreciation.

Goodwill increased by $11.4 million, or 71.3%, to $27.4 million at December 31, 2017 compared to $16.0 million at December 31, 2016 due to the Smeal acquisition.

Intangible assets increased by $3.0 million, or 46.9%, to $9.4 million at December 31, 2017 compared to $6.4 million at December 31, 2016 due to an increase of $3.9 million from trade-names and certain non-patented technology acquired from Smeal, partially offset by amortization during the period.

Net deferred tax assets increased by $4.0 million or 121.2%, to $7.3 million at December 31, 2017 from $3.3 million at December 31, 2016 primarily as a result of three factors. A $9.5 million increase resulted from the reduction of our valuation allowance recorded during the year as it was deemed more likely than not that we would realize the benefit of the net deferred tax asset. This increase was offset by a $3.0 million decrease due to the forfeiture of certain state net operating loss and credit carry-forwards, and a $2.9 million reduction due to the new federal corporate income tax rate of 21% as legislated by the Tax Cuts and Jobs Act of 2017. Although the tax rate change is not effective until January 1, 2018, the enactment of the law in 2017 required us to revalue our net deferred tax asset from the 2017 statutory rate of 35% to the new 2018 statutory rate of 21%, in accordance with current accounting guidance.

Accounts payable increased by $9.3 million, or 29.7%, to $40.6 million at December 31, 2017 from $31.3 million at December 31, 2016. $2.1 million of the increase was due to accounts payable assumed through our acquisition of Smeal, with the remainder of the increase due to the timing of payments.

Accrued warranty decreased by $1.0 million, or 5.2%, to $18.3 million at December 31, 2017 from $19.3 million at December 31, 2016, due to payments for repairs made during the year of $13.8 million, offset by $7.5 million for accruals for warranties provided on vehicles produced during the year and additional accruals of $1.6 million for changes in existing warranties. In addition, we assumed $3.7 million in warranty obligations related to the acquisition of Smeal.

Deposits from customers increased by $9.3 million or 57.8% to $25.4 million at December 31, 2017 compared to $16.1 million at December 31, 2016. The increase was due to prepayments of $13.4 million remaining at December 31, 2017 related to Smeal, partially offset by more prepayments being applied to invoices for fulfilled orders than were received during 2017 for new orders in our Emergency Response Vehicles segment.

Other current liabilities and accrued expenses increased by $4.4 million, or 57.1%, to $12.1 million at December 31, 2017 from $7.7 million at December 31, 2016, with $2.4 million of the increase related to an increase in our accrued taxes, $1.8 million due to liabilities assumed through our acquisition of Smeal, and the remainder due to the timing of accruals for various expenses incurred but not yet invoiced.

Other non-current liabilities increased by $2.7 million, or 108.0%, to $5.2 million at December 31, 2017 from $2.5 million at December 31, 2016 due to a $1.7 million vendor rebate pre-payment received in 2017 along with a $0.7 million increase in our supplemental executive retirement plan liabilities and a $0.3 million increase in other liabilities.

Liquidity and Capital Resources

Cash Flows

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statements of Cash Flows appearing in Item 8 of this Form 10-K, are summarized in the following table (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Cash provided by (used in):			
Operating activities	$ 8,026	$ 22,016	$ 23,328
Investing activities	(14,185)	(34,230)	(13,385)
Financing activities	75	13,696	(10,603)
Net increase (decrease) in cash and cash equivalents	$ (6,084)	$ 1,482	$ (660)

During 2018, cash and cash equivalents decreased by $6.1 million to a balance of $27.4 million as of December 31, 2018. These funds, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance our foreseeable liquidity and capital needs.

Cash Flow from Operating Activities

We generated $8.0 million of cash from operating activities during the year ended December 31, 2018, a decrease of $14.0 million from $22.0 million of cash generated from operating activities in 2017. Cash flow from operating activities decreased from 2017 due to a $38.5 million increase in cash utilized in the fulfilment of customer orders and a $1.1 million decrease in net income net of non-cash charges. This was offset by a $3.0 million decrease in cash paid for warranty claims in 2018 and a $22.7 million increase in cash generated through changes in other working capital items, mainly accounts payable.

We generated $22.0 million of cash from operating activities during the year ended December 31, 2017, a decrease of $1.3 million from $23.3 million of cash generated from operating activities in 2016. Cash flow from operating activities decreased from 2016 due to $3.5 million increase in cash paid for warranty claims and a $5.2 million increase in cash utilized in the fulfilment of customer orders. These decreases which were partially offset by a $5.7 million increase in net income net of non-cash charges in 2017 and $1.7 million increase in cash generated through changes in other working capital items, mainly compensation related accruals.

In 2019 we plan to incur cash outlays of $16 million to $17 million in capital related projects. This estimate includes approximately $7.2 million of cash investment to expand certain production facilities, $6.3 million related to information technology upgrades, along with expenditures of $3.0 million for the replacement and upgrade of machinery and equipment used in operations. We plan to fund these cash outlays with cash generated from our operations in 2019 and borrowings from our existing $150 million line of credit as needed.

Cash Flow from Investing Activities

We utilized $14.2 million in investing activities during the year ended December 31, 2018, a $20.0 million decrease compared to the $34.2 million utilized during the year ended December 31, 2017. This decrease is mainly due to the cash needed for our acquisition of SRUS for $5.2 million on December 17, 2018 compared to our acquisition of Smeal for $28.9 million on January 1, 2017. Purchases of property, plant and equipment also increased $3.7 million to $9.0 million in 2018 from $5.3 million in 2017.

We utilized $34.2 million in investing activities during the year ended December 31, 2017, a $20.8 million increase compared to the $13.4 million utilized during the year ended December 31, 2016. This increase is mainly the result of our acquisition of Smeal on January 1, 2017.

Cash Flow from Financing Activities

We generated $0.1 million of cash through financing activities during the year ended December 31, 2018, compared to $13.7 million generated during the year ended December 31, 2017. This decrease is mainly due to decreased advances on long-term debt of $25.2 million offset by decreased repayments on long-term debt of $15.0 million in 2018. Net cash used in the exercise, vesting or cancellation of stock incentive awards increased $2.0 million, the purchase and retirement of common stock increased $0.7 million and the payment of contingent consideration increased $0.7 million in 2018.

We generated $13.7 million of cash through financing activities during the year ended December 31, 2017, compared to $10.6 million utilized during the year ended December 31, 2016. This increase is mainly due to the financing of our acquisition of Smeal from our existing $100 million line of credit on January 1, 2017.

<u>Recent Acquisitions</u>

On December 17, 2018, the Company acquired all of the assets and assumed certain liabilities of Strobes-R-Us, Inc. ("SRUS"), a premier provider of up-fit services for government and non-government vehicles. The acquisition will enable the Company to increase its product offerings to both fleet and emergency response customers, while further expanding its manufacturing capabilities into the southeastern U.S. market. As part of this acquisition, Spartan acquired Strobes-R-Us' state-of-the-art up-fit facility and product showroom in Pompano Beach, Florida.

On January 1, 2017, we completed the acquisition of substantially all of the assets and certain liabilities of Smeal pursuant to an Asset Purchase Agreement dated December 12, 2016. This acquisition brought significant scale to our Emergency Response Vehicles segment, expanded the geographic reach of our dealer network and added complementary products to our existing emergency response product portfolio.

See Note 2, *Acquisition Activities* in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K for more information on these acquisitions.

Restructuring Activities
During the years ended December 31, 2018, 2017 and 2016, we incurred $1.7 million, $1.3 million and $1.1 million of restructuring charges. The restructuring charges were incurred in 2018 and 2017 for a company-wide initiative to streamline operations and integrate our Smeal acquisition. In 2016, restructuring charges were incurred within our Emergency Response Vehicles segment related to efforts undertaken to upgrade production processes at our Brandon, South Dakota and Ephrata, Pennsylvania locations.

See Note 4, *Restructuring Charges*, in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K for further information.

Working Capital
Our working capital is summarized in the following table (in thousands):

	As of December 31,		
	2018	2017	2016
Current assets	$ 245,329	$ 198,787	$ 162,191
Current liabilities	138,097	109,732	87,724
Working capital	$ 107,232	$ 89,055	$ 74,467

Working capital increased from December 31, 2017 to December 31, 2018, driven by changes in accounts receivable, contract assets, and accounts payable as described above.

Working capital increased from December 31, 2016 to December 31, 2017, driven by changes in accounts receivable, inventory, accounts payable, and deposits from customers as described above.

Contingent Liabilities

Spartan-Gimaex joint venture
In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the Spartan-Gimaex joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. In February 2017, by agreement of the parties, the court proceeding was dismissed with prejudice and the judge entered an order to this effect as the parties agreed to seek a dissolution plan on their own. No dissolution terms have been determined as of the date of this Form 10-K. In the fourth quarters of 2015 and 2014, we accrued charges totaling $1.0 million and $0.2 million to write down certain inventory items associated with this joint venture to their estimated fair values. Costs associated with the wind-down will be impacted by the final dissolution agreement. The costs we have accrued so far represent the low end of the range of the estimated total charges that we believe we may incur related to the wind-down. While we are unable to determine the final cost of the wind-down with certainty at this time, we may incur additional charges, depending on the final terms of the dissolution, and such charges are not expected to be material to our results.

Debt
On August 8, 2018, we entered into a Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries, as borrowers, Wells Fargo Bank, N.A., as administrative agent ("Wells Fargo"), and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank National Association (the "Lenders"). Under the Credit Agreement, we may borrow up to $150,000 from the Lenders under a five-year secured revolving credit facility. The credit facility matures August 8, 2023. We may also request an increase in the facility of up to $75,000 in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20,000 and swing line loans of up to $15,000, subject to certain limitations and restrictions. This line carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR plus margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 3.8125% (or one-month LIBOR plus 1.25%) at December 31, 2018. The credit facility is secured by security interests in, and liens on, all assets of the borrowers, other than real property and certain other excluded assets.

Under the terms of our Credit Agreement, we have the ability to issue letters of credit totaling $20.0 million. At December 31, 2018 and 2017, we had outstanding letters of credit totaling $0.9 million and $0.8 million, respectively, related to certain emergency response vehicle contracts and our workers compensation insurance.

Under the terms of our Credit Agreement we are required to maintain certain financial ratios and other financial covenants, which limited our available borrowings under our line of credit to a total of approximately $86.4 million and $66.4 million at December 31, 2018 and December 31, 2017. The agreement also prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales. At December 31, 2018, we were in compliance with all covenants in our credit agreement, and based on our outlook for 2019, we expect to be able to meet these covenants over the next twelve months.

Equity Securities

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1.0 million additional shares of our common stock in open market transactions. At December 31, 2017 there were 1.0 million shares remaining under this repurchase authorization. During the fourth quarter of 2018, we repurchased a total of 90,000 shares of our common stock under this authorization. If we were to repurchase the remaining 0.9 million shares of stock under the repurchase program, it would cost us $8.4 million based on the closing price of our stock on February 22, 2019. We believe that we have sufficient resources to fund any potential stock buyback in which we may engage.

Dividends

We paid dividends on our outstanding common shares in 2018, 2017 and 2016 as shown in the table below.

Date dividend declared	Record date	Payment date	Dividend per share ($)	Total dividend paid ($000)
Oct. 24, 2018	Nov. 14, 2018	Dec. 14, 2018	$ 0.05	$ 1,757
May 2, 2018	May 15, 2018	June 15, 2018	0.05	1,759
Oct. 24, 2017	Nov. 15, 2017	Dec. 15, 2017	0.05	1,753
May 2, 2017	May 15, 2017	June 15, 2017	0.05	1,755
Nov. 2, 2016	Nov. 15, 2016	Dec. 15, 2016	0.05	1,720
April 28, 2016	May 19, 2016	June 23, 2016	0.05	1,724

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations and Commercial Commitments

Our future contractual obligations for agreements, including agreements to purchase materials in the normal course of business, are summarized below.

	Payments Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Line of credit revolver (1)	$ 27,402	$ 971	$ 26,431	$ -	$ -
Operating leases	16,176	3,291	5,024	3,712	4,149
Contingent payments (2)	2,832	944	944	944	-
Purchase obligations	55,973	55,973	-	-	-
Total contractual obligations	$ 102,383	$ 61,179	$ 32,399	$ 4,656	$ 4,149

(1) The line of credit revolver includes estimated interest payments; interest payments on the related variable rate debt were calculated using the effective interest rate of 3.8125% at December 31, 2018.

(2) Contingent payments are associated with the SRUS acquisition in December 2018.

Critical Accounting Policies and Estimates

The following discussion of critical accounting policies and estimates is intended to supplement Note 1, *General and Summary of Accounting Policies*, of the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K. These policies were selected because they are broadly applicable within our operating units and they involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related statement of income, asset and/or liability amounts.

Revenue Recognition

Essentially all of our revenue is generated through contracts with our customers. We may recognize revenue over time or at a point in time when or as obligations under the terms of a contract with our customer are satisfied, depending on the terms and features of the contract and the products supplied. Our contracts generally do not have any significant variable consideration. The collectability of consideration on the contract is reasonably assured before revenue is recognized. On certain vehicles, payment may be received in advance of us satisfying our performance obligations. Such payments are recorded in Customer deposits on the Consolidated Balance Sheets. The corresponding performance obligations are generally satisfied within one year of the contract inception. In such cases, we have elected to apply the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component. The financing impact on contracts that contain performance obligations that are not expected to be satisfied within one year are expected to be immaterial to our financial statements. We have elected to utilize the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period for the prepaid costs that would have otherwise been deferred and amortized is one year or less. Revenue recognized in a current period from performance obligations satisfied in a prior period, if any, is immaterial to our financial statements. We use an observable price to allocate the stand-alone selling price to separate performance obligations within a contract or a cost-plus margin approach when an observable price is not available. The estimated costs to fulfill our base warranties are recognized as expense when the products are sold. Our contracts with customers do not contain a provision for product returns, except for contracts related to certain parts sales.

Revenue for parts sales for all segments is recognized at the time that control and risk of ownership has passed to the customer, which is generally, when the ordered part is shipped to the customer. Historical return rates on parts sales have been immaterial. Accordingly, no return reserve has been recorded. Instead, returns are recognized as a reduction of revenue at the time that they are received.

For certain of our vehicles and chassis, we sell separately priced service contracts that provide roadside assistance or extend certain warranty coverage beyond our base warranty agreements. These separately priced contracts range from 1 to 6 years from the date of the shipment of the related vehicle or chassis. We receive payment with the shipment of the related vehicle or at the inception of the extended service contract, if later, and recognize revenue over the coverage term of the agreement, generally on a straight-line basis, which approximates the pattern of costs expected to be incurred in satisfying the obligations under the contract.

Accounts Receivable

We maintain an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance for doubtful accounts, we make certain assumptions regarding the risk of uncollectable open receivable accounts. This risk factor is applied to the balance on accounts that are aged over 90 days: generally, this reserve has an estimated range from 10-25%. The risk percentage applied to the aged accounts may change based on conditions such as: general economic conditions, industry-specific economic conditions, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts from year to year. However, generally our assumptions are consistent year-over-year and there has been little adjustment made to the percentages used. In addition, in the event there are certain known risk factors with an open account, we may increase the allowance to include estimated losses on such “specific” account balances. The “specific” reserves are identified by a periodic review of the aged accounts receivable. If there is an account in question, credit checks are made and there is communication with the customer, along with other means to try to assess if a specific reserve is required. The inclusion of the “specific” reserve has caused the greatest fluctuation in our allowance for doubtful accounts balance historically. Please see Note 1, *General and Summary of Accounting Policies,* in the Notes to Consolidated Financial

Statements appearing in Item 8 of this Form 10-K and Appendix A included in this Form 10-K for further details and historical view of our allowance for doubtful accounts balance.

Goodwill and Other Indefinite-Lived Intangible Assets

In accordance with authoritative guidance on goodwill and other indefinite-lived intangible assets, such assets are tested for impairment at least annually, and written down when and to the extent impaired. We perform our annual impairment test for goodwill and indefinite-lived intangible assets as of October 1 of each year, or more frequently if an event occurs or conditions change that would more likely than not reduce the fair value of the asset below its carrying value.

At December 31, 2018, we had recorded goodwill at our Fleet Vehicles and Services, Emergency Response Vehicles and Specialty Chassis and Vehicles reportable segments. The Fleet Vehicles and Services and Emergency Response Vehicles reportable segments were determined to be reporting units for goodwill impairment testing, while the reporting unit for the goodwill recorded in the Specialty Chassis and Vehicles segment was determined to be limited to the Reach Manufacturing component of that reportable segment. The goodwill recorded in these reporting units was evaluated for impairment as of October 1, 2018 using a discounted cash flow valuation except for SRUS which is included in the Fleet Vehicles and Services segment and was recently acquired in December 2018.

At December 31, 2017, we had recorded goodwill at our Fleet Vehicles and Services, Emergency Response Vehicles and Specialty Chassis and Vehicles reportable segments. The Fleet Vehicles and Services and Emergency Response Vehicles reportable segments were determined to be reporting units for goodwill impairment testing, while the reporting unit for the goodwill recorded in the Specialty Chassis and Vehicles segment was determined to be limited to the Reach Manufacturing component of that reportable segment. The goodwill recorded in these reporting units was evaluated for impairment as of October 1, 2017 using a discounted cash flow valuation.

We first assess qualitative factors including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for our products and current and forecasted financial performance to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, we are not required to calculate the fair value of a reporting unit. We have the option to bypass this qualitative assessment and proceed to a quantitative goodwill impairment assessment. If we elect to bypass the qualitative assessment, or if after completing the assessment it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying value, we perform an impairment test by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of the reporting unit is determined by estimating the future cash flows of the reporting unit to which the goodwill relates, and then discounting the future cash flows at a market-participant-derived weighted-average cost of capital ("WACC"). In determining the estimated future cash flows, we consider current and projected future levels of income based on our plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to not be impaired. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to the excess, up to the value of the goodwill.

We evaluate the recoverability of our indefinite lived intangible assets, which, as of December 31, 2018, consisted of our Utilimaster and Smeal trade names, by comparing the estimated fair value of the trade names with their carrying values. We estimate the fair value of our trade names based on estimates of future royalty payments that are avoided through our ownership of the trade name, discounted to their present value. In determining the estimated fair value of the trade names, we consider current and projected future levels of revenue based on our plans for Utilimaster and Smeal branded products, business trends, prospects and market and economic conditions.

Significant judgments inherent in these analyses include assumptions about appropriate sales growth rates, WACC and the amount of expected future net cash flows. The judgments and assumptions used in the estimate of fair value are generally consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The determination of fair value is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of the reporting units and trade name.

In 2018, we elected to bypass the qualitative assessment and proceed to the quantitative goodwill impairment assessment for all of our reporting units. The estimated fair values of these reporting units exceeded their carrying values by 184%, 36% and 378%, respectively, as of October 1, 2018, the most recent annual assessment date. Based on the discounted cash flow valuations at October 1, 2018, an increase in the WACC for the reporting units of 400 basis points would not result in impairment.

The acquired Utilimaster and Smeal trade names have indefinite lives as it is anticipated that they will contribute to our cash flows indefinitely. The estimated fair values of our Utilimaster and Smeal trade names exceeded their associated carrying values of $2.9 million and $2.4 million, respectively, by 1758% and 269%, respectively, as of October 1, 2018. Accordingly, there was no impairment recorded on these trade names. Based on the discounted cash flow valuations at October 1, 2018, an increase in the WACC used for these impairment analyses of 400 basis points would not result in impairment in the trade names.

See Note 5, *Goodwill and Intangible Assets*, in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K for further details on our goodwill and indefinite-lived intangible assets.

Warranties

Our policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale, and periodically adjust the warranty liability to reflect actual experience. The amount of warranty liability accrued reflects actual historical warranty cost, which is accumulated on specific identifiable units. From that point, there is a projection of the expected future cost of honoring our obligations under the warranty agreements. Historically, the cost of fulfilling our warranty obligations has principally involved replacement parts and labor for field retrofit campaigns and recalls, which increase the reserve. Our estimates are based on historical experience, the number of units involved and the extent of features and components included in product models. See Note 10, *Commitments and Contingent Liabilities*, in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K for further information regarding warranties.

Provision for Income Taxes

We account for income taxes under a method that requires deferred income tax assets and liabilities to be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Authoritative guidance also requires deferred income tax assets, which include state tax credit carryforwards, operating loss carryforwards and deductible temporary differences, be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

We evaluate the likelihood of realizing our deferred income tax assets by assessing our valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of future taxable income, the projected reversal of temporary differences and available tax planning strategies that could be implemented to realize the net deferred income tax assets.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. Although management believes the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

Interest and penalties attributable to income taxes are recorded as a component of income taxes.

New and Pending Accounting Policies

See Note 1, *General and Summary of Accounting Policies*, in the Notes to Consolidated Financial Statements appearing in Item 8 of this Form 10-K.

Effect of Inflation

Inflation affects us in two principal ways. First, our revolving credit agreement is generally tied to the prime and LIBOR interest rates so that increases in those interest rates would be translated into additional interest expense. Second, general inflation impacts prices paid for labor, parts and supplies. Whenever possible, we attempt to cover increased costs of production and capital by adjusting the prices of our products. However, we generally do not attempt to negotiate inflation-based price adjustment provisions into our contracts. Since order lead times can be as much as nine months, we have limited ability to pass on cost increases to our customers on a short-term basis. In addition, the markets we serve are competitive in nature, and competition limits our ability to pass through cost increases in many cases. We strive to minimize the effect of inflation through cost reductions and improved productivity.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

We are exposed to market risks related to changes in interest rates and the effect of such a change on outstanding variable rate short-term and long-term debt. At December 31, 2018, we had $25.5 million in debt outstanding under our variable rate short-term and long-term debt agreements. An increase of 100 basis points in interest rates would result in additional interest expense of $0.3 million on an annualized basis for the floating rate debt that we incurred in January 2017 for the acquisition of Smeal. We believe that we have sufficient financial resources to accommodate this hypothetical increase in interest rates. We do not enter into market-risk-sensitive instruments for trading or other purposes.

Commodities risk

We are also exposed to changes in the prices of raw materials, primarily steel and aluminum, along with components that are made from these raw materials. We generally do not enter into derivative instruments for the purpose of managing exposures associated with fluctuations in steel and aluminum prices. We do, from time to time, engage in pre-buys of components that are impacted by changes in steel, aluminum and other commodity prices in order to mitigate our exposure to such price increases and align our costs with prices quoted in specific customer orders. We also actively manage our material supply sourcing, and may employ various methods to limit risk associated with commodity cost fluctuations. Changes in input costs have impacted our results for the year ended December 31, 2018, and may continue to do so beyond 2018. See Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part 1, Item 7 of this Form 10-K for information on the impacts of changes in input costs during the year ended December 31, 2018.

We do not believe that there has been a material change in the nature or categories of the primary market risk exposures or in the particular markets that present our primary risk of loss. As of the date of this report, we do not know of or expect any material changes in the general nature of our primary market risk exposure in the near term. In this discussion, "near term" means a period of one year following the date of the most recent balance sheet contained in this report.

Prevailing interest rates, interest rate relationships and commodity costs are primarily determined by market factors that are beyond our control. All information provided in response to this item consists of forward-looking statements. Reference is made to the section captioned "Forward-Looking Statements" before Part I of this Annual Report on Form 10-K for a discussion of the limitations on our responsibility for such statements.

Item 8. <u>Financial Statements and Supplementary Data</u>.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Spartan Motors, Inc.
Charlotte, Michigan

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Spartan Motors, Inc. (the "Company") and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule as listed in the accompanying index in Item 15(a)(2) of this Form 10-K (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 5, 2019 expressed an unqualified opinion thereon.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2018 the Company changed its method of accounting for revenue from contracts with customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/S/ BDO USA, LLP

We have served as the Company's auditor since 2007.

Grand Rapids, MI
March 5, 2019

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Spartan Motors, Inc.
Charlotte, Michigan

Opinion on Internal Control over Financial Reporting

We have audited Spartan Motors, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and schedule and our report dated March 5, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/S/ BDO USA, LLP
Grand Rapids, MI
March 5, 2019

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,439	$ 33,523
Accounts receivable, less allowance of $133 and $139	106,801	83,147
Contract assets	36,027	-
Inventories	69,992	77,692
Other current assets	5,070	4,425
Total current assets	245,329	198,787
Property, plant and equipment, net	56,567	55,177
Goodwill	33,823	27,417
Intangible assets, net	8,611	9,427
Other assets	2,313	3,072
Net deferred tax assets	7,141	7,284
TOTAL ASSETS	$ 353,784	$ 301,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 76,399	$ 40,643
Accrued warranty	16,090	18,268
Accrued compensation and related taxes	10,520	13,264
Deposits from customers	22,632	25,422
Other current liabilities and accrued expenses	12,396	12,071
Current portion of long-term debt	60	64
Total current liabilities	138,097	109,732
Other non-current liabilities	4,058	5,238
Long-term debt, less current portion	25,547	17,925
Total liabilities	167,702	132,895
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value: 2,000 shares authorized (none issued)	-	-
Common stock, $0.01 par value; 80,000 shares authorized; 35,321 and 35,097 outstanding	353	351
Additional paid in capital	82,816	79,721
Retained earnings	103,571	88,855
Total Spartan Motors, Inc. shareholders’ equity	186,740	168,927
Non-controlling interest	(658)	(658)
Total shareholders' equity	186,082	168,269
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 353,784	$ 301,164

See accompanying Notes to Consolidated Financial Statements.

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2018	**2017**	**2016**
Sales	$ 816,164	$ 707,098	$ 590,777
Cost of products sold	717,607	617,655	518,113
Restructuring charges	302	208	136
Gross profit	**98,255**	**89,235**	**72,528**
Operating expenses:			
Research and development	7,332	6,523	6,772
Selling, general and administrative	73,381	65,497	56,172
Restructuring charges	1,429	1,044	959
Total operating expenses	82,142	73,064	63,903
Operating income	**16,113**	**16,171**	**8,625**
Other income (expense):			
Interest expense	(1,080)	(864)	(410)
Interest and other income	2,240	717	488
Total other income (expense)	1,160	(147)	78
Income before taxes	17,273	16,024	8,703
Income tax expense	2,261	90	100
Net earnings	15,012	15,934	8,603
Less: net loss attributable to non-controlling interest	-	(1)	(7)
Net earnings attributable to Spartan Motors, Inc.	**$ 15,012**	**$ 15,935**	**$ 8,610**
Basic net earnings per share	**$ 0.43**	**$ 0.46**	**$ 0.25**
Diluted net earnings per share	**$ 0.43**	**$ 0.46**	**$ 0.25**
Basic weighted average common shares outstanding	35,187	34,949	34,405
Diluted weighted average common shares outstanding	35,187	34,949	34,405

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018, 2017 and 2016
(In thousands, except per share data)

	Number of Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Non-Controlling Interest	Total Shareholders' Equity
Balance at December 31, 2015	34,271	$ 343	$ 76,472	$ 72,326	$ (650)	$ 148,491
Issuance of common stock and the tax impact of stock incentive plan transactions	16	-	(234)	-	-	(234)
Dividends declared ($0.10 per share)	-	-	-	(3,444)	-	(3,444)
Purchase and retirement of common stock	(422)	(4)	(932)	(1,064)	-	(2,000)
Issuance of restricted stock, net of cancellation	518	5	(5)	-	-	-
Stock based compensation expense related to restricted stock	-	-	1,536	-	-	1,536
Net earnings (loss)	-	-	-	8,610	(7)	8,603
Balance at December 31, 2016	34,383	344	76,837	76,428	(657)	152,952
Issuance of common stock related to stock incentive plan transactions	29	-	(645)	-	-	(645)
Dividends declared ($0.10 per share)	-	-	-	(3,508)	-	(3,508)
Issuance of restricted stock, net of cancellation	685	7	(7)	-	-	-
Stock based compensation expense related to restricted stock	-	-	3,536	-	-	3,536
Net earnings (loss)	-	-	-	15,935	(1)	15,934
Balance at December 31, 2017	35,097	351	79,721	88,855	(658)	168,269
Transition adjustment for adoption of new revenue recognition standard	-	-	-	3,668	-	3,668
Balance at December 31, 2017, Adjusted	35,097	351	79,721	92,523	(658)	171,937
Issuance of common stock related to stock incentive plan transactions	13	-	(2,670)	-	-	(2,670)
Dividends declared ($0.10 per share)	-	-	-	(3,516)	-	(3,516)
Purchase and retirement of common stock	(90)	(1)	(207)	(448)		(656)
Issuance of common stock related to investment in subsidiary	247	2	1,946	-	-	1,948
Issuance of restricted stock, net of cancellation	54	1	(1)	-	-	-
Stock based compensation expense related to restricted stock	-	-	4,027	-	-	4,027
Net earnings	-	-	-	15,012	-	15,012
Balance at December 31, 2018	35,321	$ 353	$ 82,816	$ 103,571	$ (658)	$ 186,082

See accompanying Notes to Consolidated Financial Statements.

SPARTAN MOTORS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net earnings	$ 15,012	$ 15,934	$ 8,603
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities			
Depreciation and amortization	10,370	9,937	7,903
Gain on disposal of assets	-	(13)	(13)
Impairment of assets	-	-	406
Accruals for warranty	8,660	9,099	12,989
Expense from changes in fair value of contingent consideration	(693)		
Deferred income taxes	(755)	(3,974)	(2,666)
Stock based compensation related to stock awards	4,027	3,536	1,536
Decrease (increase) in operating assets, net of effects of acquisition:			
Accounts receivable	(22,490)	(18,576)	(8,824)
Contract assets	(5,467)	-	-
Inventories	(24,340)	42,920	1,662
Income taxes receivable	-	1,287	468
Other assets	(658)	851	(1,020)
Increase (decrease) in operating liabilities, net of effects of acquisition:			
Accounts payable	35,297	5,366	4,018
Cash paid for warranty repairs	(10,838)	(13,854)	(10,265)
Accrued compensation and related taxes	(2,789)	(1,530)	4,504
Deposits from customers	4,444	(33,648)	3,047
Other current liabilities and accrued expenses	1,094	240	1,056
Other long-term liabilities	(345)	1,725	-
Taxes on income	(2,503)	2,716	(76)
Total adjustments	(6,986)	6,082	14,725
Net cash provided by operating activities	8,026	22,016	23,328
Cash flows from investing activities:			
Purchases of property, plant and equipment	(8,985)	(5,340)	(13,410)
Proceeds from sale of property, plant and equipment	-	13	25
Acquisition of business, net of cash acquired	(5,200)	(28,903)	-
Net cash used in investing activities	(14,185)	(34,230)	(13,385)
Cash flows from financing activities:			
Proceeds from long-term debt	7,684	32,919	10
Payments on long-term debt	(66)	(15,070)	(5,058)
Payment of contingent consideration on acquisitions	(701)	-	-
Purchase and retirement of common stock	(656)	-	(2,000)
Net cash used in the exercise, vesting or cancellation of stock incentive awards	(2,670)	(645)	(111)
Payment of dividends	(3,516)	(3,508)	(3,444)
Net cash provided by (used in) financing activities	75	13,696	(10,603)
Net increase (decrease) in cash and cash equivalents	(6,084)	1,482	(660)
Cash and cash equivalents at beginning of year	33,523	32,041	32,701
Cash and cash equivalents at end of year	$ 27,439	$ 33,523	$ 32,041

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 - GENERAL AND SUMMARY OF ACCOUNTING POLICIES

Nature of Operations. Spartan Motors, Inc. (the "Company", "we", or "us") is a niche market leader in specialty vehicle manufacturing and assembly for the commercial vehicle (including last-mile delivery, specialty service and vocation-specific up-fit segments), emergency response and recreational vehicle industries. We have various subsidiaries that are manufacturers of bodies for various markets including fleet vehicles and emergency response vehicles. Our principal chassis markets are emergency response vehicles, motor homes and other specialty vehicles.

Our operating activities are conducted through our wholly-owned operating subsidiary, Spartan Motors USA, Inc. ("Spartan USA"), with locations in Charlotte, Michigan; Brandon, South Dakota; Snyder and Neligh, Nebraska; Ladson, South Carolina; Ephrata, Pennsylvania; Pompano Beach, Florida; Bristol, Indiana; Kansas City, Missouri; and Saltillo, Mexico.

On December 17, 2018, the Company acquired all of the assets and assumed certain liabilities of Strobes-R-Us, Inc. ("SRUS"), a premier provider of up-fit services for government and non-government vehicles. The acquisition will enable the Company to increase its product offerings to both fleet and emergency response customers, while further expanding its manufacturing capabilities into the southeastern U.S. market. As part of this acquisition, Spartan acquired Strobes-R-Us' state-of-the-art up-fit facility and product showroom in Pompano Beach, Florida. SRUS will be reported as part of the Fleet Vehicles and Services segment.

On January 1, 2017, Spartan USA acquired substantially all of the assets and assumed certain liabilities of Smeal Fire Apparatus Co., Smeal Properties, Inc., Ladder Tower Co., and U.S. Tanker Co. When used in this Annual Report on Form 10-K, "Smeal" refers to the assets, liabilities, and operations acquired from such entities. The assets acquired consist of the assets used by the former owners of Smeal in the operation of its business designing, manufacturing, and distributing emergency response vehicle bodies and aerial devices for the fire service industry. Smeal has operations in Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania and is operated as part of our Emergency Response Vehicles segment.

Our Bristol, Indiana location manufactures vehicles used in the parcel delivery, mobile retail and trades and construction industries, and supplies related aftermarket parts and services under the Utilimaster brand name. Our Kansas City, Missouri, Pompano Beach, Florida and Saltillo, Mexico locations sell and install equipment used in commercial and fleet vehicles. Our Brandon, South Dakota, Snyder and Neligh, Nebraska, and Ephrata, Pennsylvania locations manufacture emergency response vehicles under the Spartan, Smeal, US Tanker and Ladder Tower Company brand names. Our Charlotte, Michigan location manufactures heavy duty chassis and vehicles and supplies aftermarket parts and accessories under the Spartan Chassis and Spartan brand names. Spartan USA was also a participant in Spartan-Gimaex Innovations, LLC ("Spartan-Gimaex"), a 50/50 joint venture with Gimaex Holding, Inc. that was formed to provide emergency response vehicles for the domestic and international markets. Spartan-Gimaex is reported as a consolidated subsidiary of Spartan Motors, Inc. In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. In February 2017, by agreement of the parties, the court proceeding was dismissed with prejudice and the judge entered an order to this effect as the parties agreed to seek a dissolution plan on their own. The Company is continuing to work on this dissolution plan and no dissolution terms have been determined as of the date of this Form 10-K.

Principles of Consolidation. The consolidated financial statements include our accounts and the accounts of our wholly owned subsidiary, Spartan USA and its subsidiaries. All inter-company transactions have been eliminated.

Non-Controlling Interest
At December 31, 2018, Spartan USA held a 50% share in Spartan-Gimaex, however, due to the management and operational structure of the joint venture, Spartan USA was considered to have had the ability to control the operations of Spartan-Gimaex. Accordingly, Spartan-Gimaex is reported as a consolidated subsidiary of Spartan Motors, Inc., within the Emergency Response Vehicles segment. The joint venture is not currently active and as noted above the parties are currently seeking a dissolution plan.

Use of Estimates. In the preparation of our financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"), management uses estimates and makes judgments and assumptions that affect asset and liability values and the amounts reported as income and expense during the periods presented. Certain of these estimates, judgments and assumptions, such as the allowance for credit losses, warranty expenses, impairment assessments of tangible and intangible assets, and the provision for income taxes, are particularly sensitive. If actual results are different from estimates used by management, they may have a material impact on the financial statements.

Revenue Recognition. Essentially all of our revenue is generated through contracts with our customers. We may recognize revenue over time or at a point in time when or as obligations under the terms of a contract with our customer are satisfied, depending on the terms and features of the contract and the products supplied. Our contracts generally do not have any significant variable consideration. The collectability of consideration on the contract is reasonably assured before revenue is recognized. On certain vehicles, payment may be received in advance of us satisfying our performance obligations. Such payments are recorded in Customer deposits on the Consolidated Balance Sheets. The corresponding performance obligations are generally satisfied within one year of the contract inception. In such cases, we have elected to apply the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component. The financing impact on contracts that contain performance obligations that are not expected to be satisfied within one year are expected to be immaterial to our consolidated financial statements. We have elected to utilize the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred because the amortization period for the prepaid costs that would have otherwise been deferred and amortized is one year or less. Revenue recognized in a current period from performance obligations satisfied in a prior period, if any, is immaterial to our consolidated financial statements. We use an observable price to allocate the stand-alone selling price to separate performance obligations within a contract or a cost-plus margin approach when an observable price is not available. The estimated costs to fulfill our base warranties are recognized as expense when the products are sold (see "*Note 10 – Commitments and Contingent Liabilities*" for further information on warranties). Our contracts with customers do not contain a provision for product returns, except for contracts related to certain parts sales.

Revenue for parts sales for all segments is recognized at the time that control and risk of ownership has passed to the customer, which is generally, when the ordered part is shipped to the customer. Historical return rates on parts sales have been immaterial. Accordingly, no return reserve has been recorded. Instead, returns are recognized as a reduction of revenue at the time that they are received.

For certain of our vehicles and chassis, we sell separately priced service contracts that provide roadside assistance or extend certain warranty coverage beyond our base warranty agreements. These separately priced contracts range from 1 to 6 years from the date of the shipment of the related vehicle or chassis. We receive payment with the shipment of the related vehicle or at the inception of the extended service contract, if later, and recognize revenue over the coverage term of the agreement, generally on a straight-line basis, which approximates the pattern of costs expected to be incurred in satisfying the obligations under the contract.

Distinct revenue recognition policies for our segments are as follows:

Fleet Vehicles and Services
Our walk-in vans and truck bodies are generally built on a chassis that is owned and controlled by the customer. Due to the customer ownership of the chassis, the performance obligation for these walk-in vans and truck bodies is satisfied as the vehicles are built. Accordingly, the revenue and corresponding cost of products sold associated with these contracts are recognized over time based on the inputs completed for a given performance obligation during the reporting period. Certain contracts will specify that a walk-in van or truck body is to be built on a chassis that we purchase and subsequently sell to the customer. The revenue on these contracts is recognized at the time that the performance obligation is satisfied and control and risk of ownership has passed to the customer, which is generally upon shipment of the vehicle from our manufacturing facility to the customer or receipt of the vehicle by the customer, depending on contract terms. We have elected to treat shipping and handling costs subsequent to transfer of control as fulfillment activities and, accordingly, recognize these costs as the revenue is recognized.

Revenue for up-fit and field service contracts is recognized over time, as equipment is installed in the customer's vehicle or repairs and enhancements are made to customer's vehicles. Revenue and the corresponding cost of products sold is estimated based on the inputs completed for a given performance obligation. Our performance obligation for up-fit and field service contracts is satisfied when the equipment installation or repairs and enhancements of the customer's vehicle has been completed. Payment on our fleet vehicles and services performance obligations is received an average of 35 days after revenue is recognized.

Emergency Response Vehicles
Our emergency response chassis and apparatuses are generally manufactured to order based on customer-supplied specifications. Due to the custom nature of the products and the attributes of the contracts, we do not have a ready alternative use for our emergency response chassis and apparatuses and we have an enforceable right to payment on the contracts. Accordingly, performance obligations for these custom ordered chassis and apparatuses are satisfied as the apparatuses and chassis are built. We recognize revenue and the corresponding cost of products sold on these contracts over time based on the inputs completed for a given performance obligation during the reporting period. We have elected to treat shipping and handling costs subsequent to transfer of control as fulfillment activities and, accordingly, recognize these costs as the revenue is recognized. Payment is received an average of 48 days following the recognition of revenue for chassis and 103 days for complete apparatuses.

Revenue on certain emergency response chassis and apparatuses that are sold from stock or utilized as demonstration units is recognized at the point in time when the chassis and apparatus is shipped. Revenue related to modifications made to trucks sold from stock or that were utilized as demonstration units is recognized over time as the modifications are completed. Payment is received an average of 60 days following the recognition of revenue for stock or demonstrator units.

Specialty Chassis and Vehicles
We recognize revenue and the corresponding cost of products sold on the sale of motor home chassis when the performance obligation is completed and control and risk of ownership of the chassis has passed to our customer, which is generally upon shipment of the chassis to the customer.

Revenue and the corresponding cost of products sold associated with other specialty chassis is recognized over time based on the inputs completed for a given performance obligation during the reporting period. The performance obligations for other specialty chassis contracts are satisfied as the products are assembled. Payment is received an average of 24 days following the recognition of revenue for other specialty chassis.

Prior to the adoption of Accounting Standards Update 2014-09, Revenue from Contracts with Customers and with additional subsequent updates issued ("ASU 2014-09" or "ASC 606"), we recognized revenue in accordance with authoritative guidelines, including those of the Securities and Exchange Commission ("SEC"). Accordingly, revenue was recognized when title to the product and risk of ownership passed to the buyer. In certain instances, risk of ownership and title passed when the product had been completed in accordance with purchase order specifications and had been tendered for delivery to the customer. On certain customer requested bill and hold transactions, revenue recognition occurred after the customer had been notified that the products had been completed according to the customer specifications, had passed all of our quality control inspections, and were ready for delivery. All sales were shown net of returns, discounts and sales incentive programs, which historically have not been significant. The collectability of any related receivable was reasonably assured before revenue was recognized.

Business Combinations. When acquiring other businesses, we recognize identifiable assets acquired and liabilities assumed at their acquisition date estimated fair values, and separately from any goodwill that may be required to be recognized. Goodwill, when recognizable, is measured as the excess amount of any consideration transferred, which is measured at fair value, over the acquisition date fair values of the identifiable assets acquired and liabilities assumed. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

Accounting for such acquisitions requires us to make significant assumptions and estimates and, although we believe any estimates and assumptions we make are reasonable and appropriate at the time they are made, unanticipated events and circumstances may arise that affect their accuracy, which may cause actual results to differ from those estimated by us. When necessary, we will adjust the values of the assets acquired and liabilities assumed against the goodwill or acquisition gain, as initially recorded, for a period of up to one year after the acquisition date.

Costs incurred to effect an acquisition, such as legal, accounting, valuation or other third-party costs, as well as internal general and administrative costs incurred are charged to expense in the periods incurred.

Shipping and Handling of Products. Costs incurred related to the shipment and handling of products are classified in cost of products sold. Amounts billed to customers for shipping and handling of products are included in sales.

Cash and Cash Equivalents include cash on hand, cash on deposit, treasuries and money market funds. We consider all investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable. Our receivables are subject to credit risk, and we do not typically require collateral on our accounts receivable. We perform periodic credit evaluations of our customers' financial condition and generally require a security interest in the products sold. Receivables generally are due within 30 to 60 days. We maintain an allowance for customer accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance for doubtful accounts, management makes certain assumptions regarding the risk of uncollectable open receivable accounts. This risk factor is applied to the balance on accounts that are aged over 90 days: generally, this reserve has an estimated range from 10-25%. The risk percentage applied to the aged accounts may change based on conditions such as: general economic conditions, industry-specific economic conditions, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts from year to year. However, generally our assumptions are consistent year-over-year and there has been little adjustment made to the percentages used. In addition, in the event there are certain known risk factors with an open account, we may increase the allowance to include estimated losses on such "specific" account balances. The "specific" reserves are identified by a periodic review of the aged accounts receivable. If there is an account in question, credit checks are made and there is communication with the customer, along with other means to try to assess if a specific reserve is required. The inclusion of the "specific" reserve has caused the greatest fluctuation in the allowance for doubtful accounts balance historically. Past due accounts are written off when collectability is determined to be no longer assured.

Inventories are stated at the lower of first-in, first-out cost or net realizable value. Estimated inventory allowances for slow-moving inventory are based upon current assessments about future demands, market conditions and related management initiatives. If market conditions are less favorable than those projected by management, additional inventory allowances may be required.

Contract Assets arise upon the transfer of goods or services to a customer before the customer pays consideration. The Company will present the contract as either a contract asset or as a receivable, depending on the nature of the entity's right to consideration for its performance. Contract assets are a right to consideration in exchange for goods or services that the Company has transferred to a customer, when the right is conditioned on something other than the passage of time.

Property, Plant and Equipment is stated at cost and the related assets are depreciated over their estimated useful lives on a straight-line basis for financial statement purposes and an accelerated method for income tax purposes. Cost includes an amount of interest associated with significant capital projects. Estimated useful lives range from 20 years for buildings and improvements, 3 to 15 years for plant machinery and equipment, 3 to 7 years for furniture and fixtures and 3 to 5 years for vehicles. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the asset. Maintenance and repair costs are charged to earnings, while expenditures that increase asset lives are capitalized. We review our property, plant and equipment, along with all other long-lived assets that have finite lives, including finite-lived intangible assets, for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Assets held-for-sale are recorded at the lower of historical depreciated cost or the estimated fair value less costs to sell. See Note 6, *Property, Plant and Equipment* for further information on our property and equipment.

Related Party Transactions. We purchase certain components used in the manufacture of our products from parties that could be considered related to us because one or more of our executive officers or board members is also an executive officer or board member of the related party. See Note 17, *Related Party Transactions*, for more information regarding our transactions with related parties.

Goodwill and Other Intangible Assets. Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to impairment tests on an annual basis, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is allocated to the reporting unit from which it was created. A reporting unit is an operating segment or sub-segment to which goodwill is assigned when initially recorded. We review indefinite lived intangible assets annually for impairment by comparing the carrying value of those assets to their fair value.

Other intangible assets with finite lives are amortized over their estimated useful lives and are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

We perform our annual goodwill and indefinite lived intangible assets impairment test as of October 1 and monitor for interim triggering events on an ongoing basis. For goodwill we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Under authoritative guidance, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. We have the option to bypass the qualitative assessment and proceed to a quantitative impairment test.

If we elect to bypass the qualitative assessment for a reporting unit, or if after completing the assessment we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we perform a quantitative impairment test, whereby we compare the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of the reporting unit is determined by estimating the future cash flows of the reporting unit to which the goodwill relates, and then discounting the future cash flows at a market-participant-derived weighted-average cost of capital ("WACC"). In determining the estimated future cash flows, we consider current and projected future levels of income based on our plans for that business; business trends, prospects and market and economic conditions; and market-participant considerations. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to not be impaired. If the carrying amount of the reporting unit exceeds its estimated fair value, an impairment loss is recognized in an amount equal to the excess, up to the carrying value of the goodwill.

We evaluate the recoverability of our indefinite lived intangible assets, which consist of our Utilimaster and Smeal trade names, based on estimates of future royalty payments that are avoided through our ownership of the trade names, discounted to their present value. In determining the estimated fair value of the trade names, we consider current and projected future levels of revenue based on our plans for Utilimaster and Smeal, business trends, prospects and market and economic conditions.

Significant judgments inherent in these assessments and analyses include assumptions about macroeconomic and industry conditions, appropriate sales growth rates, WACC and the amount of expected future net cash flows. The judgments and assumptions used in the estimate of fair value are generally consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change because of changing economic and competitive conditions. The determination of fair value is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of the reporting units and trade names.

See Note 5, *Goodwill and Intangible Assets,* for further details on our goodwill and other intangible assets.

Warranties. Our policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale, and periodically adjust the warranty liability to reflect actual experience. The amount of warranty liability accrued reflects management's best estimate of the expected future cost of honoring our obligations under the warranty agreements. Expense related to warranty liabilities accrued for product sales, as well as adjustments to pre-existing warranty liabilities, are reflected within Cost of products sold on our Consolidated Statements of Operations. Our estimates are based on historical experience, the number of units involved and the extent of features and components included in product models. See Note 10, *Commitments and Contingent Liabilities*, for further information regarding warranties.

Deposits from Customers. We sometimes receive advance payments from customers for product orders and record these amounts as liabilities. We accept such deposits when presented by customers seeking improved pricing in connection with orders that are placed for products to be manufactured and sold at a future date. Revenue associated with these deposits is recognized over time based on the inputs completed for a given performance obligation during the reporting period or deferred and recognized upon shipment of the related product to the customer depending on the terms of the contract.

Research and Development. Our research and development costs, which consist of compensation costs, travel and entertainment, administrative expenses and new product development among other items, are expensed as incurred.

Taxes on Income. We recognize deferred income tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax liabilities generally represent tax expense recognized for which payment has been deferred, or expenses which have been deducted in our tax returns but which have not yet been recognized as an expense in our financial statements.

We establish valuation allowances for deferred income tax assets in accordance with GAAP, which provides that such valuation allowances shall be established unless realization of the income tax benefits is more likely than not. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At each reporting period, we consider the scheduled reversal of deferred tax liabilities, available taxes in carryback periods, tax planning strategies and projected future taxable income in making this assessment.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals.

Interest and penalties attributable to income taxes are recorded as a component of income taxes.

See Note 8, *Taxes on Income*, for further details on our income taxes.

Earnings Per Share. Basic earnings per share is based on the weighted average number of common shares, share equivalents of stock appreciation rights ("SAR"s) and participating securities outstanding during the period. Diluted earnings per share also include the dilutive effect of additional potential common shares issuable from stock options and are determined using the treasury stock method. Basic earnings per share represents net earnings divided by basic weighted average number of common shares outstanding during the period, including the average dilutive effect of our SARs outstanding during the period determined using the treasury stock method. Diluted earnings per share represents net earnings divided by diluted weighted average number of common shares outstanding, which includes the average dilutive effect of our stock options outstanding during the period. Our unvested stock awards are included in the number of shares outstanding for both basic and diluted earnings per share calculations, unless a net loss is reported, in which situation unvested stock awards are excluded from the number of shares outstanding for both basic and diluted earnings per share calculations. See Note 15, *Earnings Per Share,* for further details.

Stock Incentive Plans. Share based payment compensation costs for equity-based awards is measured on the grant date based on the estimated fair value of the award at that date, and is recognized over the requisite service period, net of estimated forfeitures. Fair value of stock option and stock appreciation rights awards are estimated using a closed option valuation (Black-Scholes) model. Fair value of restricted stock awards is based upon the quoted market price of the common stock on the date of grant. Our incentive stock plans are described in more detail in Note 13, *Stock Based Compensation*.

Fair Value. We are required to disclose the estimated fair value of our financial instruments. The carrying value at December 31, 2018 and 2017 of cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to their short-term nature. The carrying value of variable rate debt instruments approximate their fair value based on their relative terms and market rates.

Segment Reporting. We identify our reportable segments based on our management structure and the financial data utilized by the chief operating decision makers to assess segment performance and allocate resources among our operating units. We have three reportable segments: Fleet Vehicles and Services, Emergency Response Vehicles and Specialty Chassis and Vehicles. More detailed information about our reportable segments can be found in Note 16, *Business Segments*.

Supplemental Disclosures of Cash Flow Information. Cash paid for interest was $630, $619 and $309 for 2018, 2017 and 2016. Cash paid (received) for income taxes, net of refunds, was $5,054, $0 and $2,232 for 2018, 2017 and 2016. Non-cash investing in 2018 included the issuance of the Company's capital stock in the amount of $1,950 and a contingent liability for the value of future consideration of $2,832 in conjunction with our acquisition of SRUS. Non-cash investing in 2017 included $7,391 forgiveness of accounts receivable in conjunction with our acquisition of Smeal. See Note 2 for further information about these acquisitions.

New Accounting Standards

In February 2017 the FASB issued Accounting Standards Update No. 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)* ("ASU 2017-05"). ASU 2017-05 is intended to provide guidance for when gains and losses on nonfinancial assets should be applied to a financial asset by defining the term "nonfinancial asset". ASU 2017-05 became effective for us beginning in the first quarter of 2018. The adoption of the provisions of ASU 2017-05 did not have an impact on our consolidated financial position, results of operations or cash flows.

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 is intended to introduce a revised approach to the recognition and measurement of credit losses, emphasizing an updated model based on expected losses rather than incurred losses. The provisions of this standard are effective for reporting periods beginning after December 15, 2019 and early adoption is permitted. The adoption of the provisions of ASU 2016-13 are not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

We substantially completed our assessment of the impacts of the new lease standard during the fourth quarter. We have determined that the adoption of ASU 2016-02 will result in recognizing right of use assets and liabilities on the consolidated statement of financial position for leases currently classified as operating leases. We expect to utilize the following practical expedients:

- ASC 842-10-15-37 to elect not to separate non-lease components from lease components and instead will account for each separate lease component and any non-lease components associated with a lease component as a single lease component for all leases except for leases of land and buildings;
- ASC 842-10-65-1(c)(2) to retrospectively record the right of use assets and lease liabilities as of January 1, 2019 with any cumulative effect of the initial application recorded to retained earnings;
- ASC 842-10-65-1(f) package of practical expedients to not reassess whether any expired or existing contracts are or contain leases, not reassess the lease classification for any expired or existing leases, and not reassess initial direct costs for any existing leases; and
- ASC 842-10-65-1(g) to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the company's right-of-use assets.
- ASC 842-20-25-2 to exclude short-term leases from the balance sheet.

We expect that the disclosures in the notes to our consolidated financial statements related to leases will be significantly expanded under the new standard, specifically:

- ASC 842-20-50-1 general disclosures about the Company's leases, the significant judgments made in applying the requirements in this standard to those leases, and the amounts recognized in the consolidated financial statements relating to those leases.
- ASC 842-20-50-3 requiring a general description of the leases, the existence and terms and conditions of options to extend or terminate the lease including narrative disclosure about the options that are recognized as part of its right-of-use assets and lease liabilities and those that are not, information about leases that have not yet commenced but that create significant rights and obligations for the company, significant assumptions and judgments made in determining whether a contract contains a lease, the allocation of the consideration in a contract between lease and non-lease components and the determination of discount rates for leases.
- ASC 842-20-50-4 requiring the disclosure for each period presented in the consolidated financial statements relating to the Company's total lease cost, which includes both amounts recognized in profit or loss during the period and any amounts capitalized as part of the cost of another asset and the cash flows arising from lease transactions for finance leasing cost, segregated between the amortization of the right-of-use assets and interest on the lease liabilities; operating lease costs; and short-term lease costs; amounts segregated between those for finance and operating leases for cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing cash flows, supplemental noncash information on lease liabilities arising from obtaining right-of-use assets, the weighted-average remaining lease term and the weighted-average discount rate.
- ASC 842-20-50-6 requires a maturity analysis of the Company's finance lease and operating lease liabilities, separately, showing the undiscounted cash flows on an annual basis for each of the first five years and a total amount for the remaining years.
- ASC 842-20-50-8 requires the Company to disclose the fact that it elected to exclude short term leases from the balance sheet and disclose the amount of short term lease commitments if the lease expense for the period does not reasonably reflect the entity's short term lease commitments.
- ASC 842-20-50-9 requires the Company to disclose their election of the practical expedient to not separate lease components from non-lease components and indicate which class of assets it has elected to apply the practical expedient.

It is expected that certain other provisions of ASC 842 not mentioned above will not significantly impact the Company.

We will adopt ASU 2016-02 as of January 1, 2019 using the modified retrospective approach. As a result, in the first quarter of 2019 we expect to record right of use assets for operating leases of approximately $13,600 and for financing leases of approximately $700. The decrease to retained earnings is expected to be approximately $200, reflecting the cumulative impact of the accounting change.

We are unable to precisely quantify the impact to expenses for future periods since expenses recognized in those periods will depend on the actual leasing levels in those periods, but we do not expect those expenses from recognizing right of use assets and lease liabilities to change significantly.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09" or "ASC 606"). Subsequently the FASB provided additional guidance to clarify certain aspects of the standard in Accounting Standards Updates No. 2016-08*, Revenue from Contracts with Customers (ASU 2014-09), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*; No. 2016-10, *Revenue from Contracts with Customers (ASU 2014-09), Identifying Performance Obligations and Licensing*; and No. 2016-12, *Revenue from Contracts with Customers (ASU 2014-09), Narrow-Scope Improvements and Practical Expedients*. ASU 2014-09, as amended, is based on the principle that revenue should be recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective approach. See the *"Adoption of Revenue Recognition Accounting Policy"* section below for a description of the impact of the adoption of the provisions of ASU 2014-09 on our consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (ASU* 2014-09*), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU 2016-08"). ASU 2016-08 clarifies the implementation guidance for principal-versus-agent considerations in the revenue recognition standard. A principal-versus-agent consideration applies to sales that involve two or more suppliers to a customer. Each participant in the sale must determine whether they control the good or service and are entitled to the gross amount of the transaction or are acting as an agent and should collect only a fee or commission for arranging the sale. ASU 2016-08 will go into effect when the revenue standard issued in ASU 2014-09 becomes effective. We adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective approach. See the *"Adoption of Revenue Recognition Accounting Policy"* section below for a description of the impact of the adoption of the provisions of ASU 2014-09 on our consolidated financial position, results of operations and cash flows.

In April 2016, the FASB issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (ASU* 2014-09*), Identifying Performance Obligations and Licensing* ("ASU 2016-10"). ASU 2016-10 clarifies the implementation guidance in ASU 2014-09 for identifying performance obligations and determining when to recognize revenue on licensing agreements for intellectual property. ASU 2016-10 removes the requirement to assess whether promised goods or services are performance obligations if they are immaterial to the contract with the customer and allows an entity to elect to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good rather than as an additional promised service. ASU 2016-10 also includes implementation guidance on determining whether a license granted by an entity provides a customer with a right to use the intellectual property, which is satisfied at a point in time, or a right to access the intellectual property, which is satisfied over time. ASU 2016-10 will go into effect when the revenue standard issued in ASU 2014-09 becomes effective. We adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective approach. See the *"Adoption of Revenue Recognition Accounting Policy"* section below for a description of the impact of the adoption of the provisions of ASU 2014-09 on our consolidated financial position, results of operations and cash flows.

In May 2016, the FASB issued Accounting Standards Update No. 2016-12, *Revenue from Contracts with Customers (ASU* 2014-09*), Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"). ASU 2016-12 clarifies the implementation guidance on assessing collectability, presentation of sales taxes, non-cash consideration and completed contracts and contract modifications at transition. ASU 2016-12 will go into effect when the revenue standard issued in ASU 2014-09 becomes effective. We adopted ASU 2014-09 as of January 1, 2018 using the modified retrospective approach. See the *"Adoption of Revenue Recognition Accounting Policy"* section below for a description of the impact of the adoption of the provisions of ASU 2014-09 on our consolidated financial position, results of operations and cash flows.

Adoption of Revenue Recognition Accounting Policy

Except for the changes below, we have consistently applied the accounting policies to all periods presented in these consolidated financial statements. We adopted ASC 606 with a date of initial application of January 1, 2018. As a result, we changed our accounting policy for revenue recognition as detailed above under the "Revenue Recognition" section.

We applied ASC 606 using the cumulative effect method to all contracts not completed at the date of initial application by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under prior revenue recognition guidance.

(Dollar amounts in thousands, except per share data)

The tables below present the impacts of our adoption of the new revenue standard on our income statement and balance sheet.

	Three Months Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Income Statement			
Sales	$ 232,961	$ 240,182	$ (7,221)
Cost of products sold	209,150	215,144	(5,994)
Taxes (benefit)	(266)	35	(301)
Net earnings	1,833	2,759	(926)

	Year Ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Income Statement			
Sales	$ 816,164	$ 828,988	$ (12,824)
Cost of products sold	717,607	730,010	(12,403)
Taxes	2,261	2,335	(74)
Net earnings	15,012	15,359	(347)

	December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Higher/(Lower)
Balance Sheet			
Assets			
Contract assets	$ 36,027	$ -	$ 36,027
Inventories	69,992	109,096	(39,104)
Net deferred tax asset	7,141	8,038	(897)
Liabilities			
Deposits from customers	22,632	30,150	(7,518)
Other current liabilities and accrued expenses	12,396	12,173	223
Equity			
Retained earnings	103,571	100,250	3,321

(Dollar amounts in thousands, except per share data)

The table below presents the cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASC 606.

	December 31, 2017	Transition adjustments	January 1, 2018
Assets			
Contract assets	$ -	$ 30,559	$ 30,559
Inventory	77,692	(32,933)	44,759
Net deferred tax asset	7,284	(897)	6,387
Liabilities			
Deposits from customers	25,422	(7,234)	18,188
Other current liabilities and accrued expenses	12,071	295	12,366
Equity			
Retained earnings	88,855	3,668	92,523

Contract assets and liabilities
The tables below disclose changes in contract assets and liabilities as of the periods indicated.

Contract assets	
Opening balance (January 1, 2018)	$ 30,559
Reclassification of the beginning contract assets to receivables, as the result of rights to consideration becoming unconditional	(30,559)
Contract assets recognized, net of reclassification to receivables	36,027
Net change	5,468
Ending balance (December 31, 2018)	$ 36,027

Contract liabilities	
Opening balance (January 1, 2018)	$ 18,188
Reclassification of the beginning contract liabilities to revenue, as the result of performance obligations satisfied	(15,490)
Cash received in advance and not recognized as revenue	19,934
Net change	4,444
Ending balance (December 31, 2018)	$ 22,632

(Dollar amounts in thousands, except per share data)

The aggregate amount of the transaction price allocated to remaining performance obligations in existing contracts that are yet to be completed are expected to be recognized as revenue in the following annual time-periods:

	1-12 Months (1)	13 Months and beyond(1)	Total
Revenue expected to be recognized as of December 31, 2018:			
Fleet Vehicles and Services	$ 218,775	$ -	$ 218,775
Emergency Response Vehicles	211,524	5,842	217,366
Specialty Chassis and Vehicles	37,691	32	37,723
Total	$ 467,990	$ 5,874	$ 473,864

(1) Revenue above includes amounts related to extended warranties and roadside assistance contracts of $190 and $35 for one to 12 months and $650 and $32 for 13 months and beyond, respectively.

For performance obligations that are satisfied over time, revenue is expected to be recognized evenly over the time period to complete the contract due to the assembly line nature of the business operations. For performance obligations that are satisfied at a point in time, revenue is expected to be recognized when the customer obtains control of the product, which is generally upon shipment from our facility. No amounts have been excluded from the transaction prices above related to the guidance on constraining estimates of variable consideration.

In the following tables, revenue is disaggregated by primary geographical market and timing of revenue recognition for the twelve months ended December 31, 2018. The tables also include a reconciliation of the disaggregated revenue with the reportable segments.

	Year Ended December 31, 2018					
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Total Reportable Segments	Other	Total
Primary geographical markets						
United States	$ 367,730	$ 209,307	$ 191,814	$ 768,851	$ (10,221)	$ 758,630
Other	19,819	36,330	1,385	57,534	-	57,534
Total sales	$ 387,549	$ 245,637	$ 193,199	$ 826,385	$ (10,221)	$ 816,164
Timing of revenue recognition						
Products transferred at a point in time	$ 113,576	$ 21,183	$ 160,408	$ 295,167	$ -	$ 295,167
Products and services transferred over time	273,973	224,454	32,791	531,218	(10,221)	520,997
Total sales	$ 387,549	$ 245,637	$ 193,199	$ 826,385	$ (10,221)	$ 816,164

(Dollar amounts in thousands, except per share data)

	Year Ended December 31, 2017					
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Total Reportable Segments	Other	Total
Primary geographical markets						
United States	$ 238,267	$ 235,085	$ 158,246	$ 631,598	$ (5,657)	$ 625,941
Other	12,828	67,765	564	81,157	-	81,157
Total sales	$ 251,095	$ 302,850	$ 158,810	$ 712,755	$ (5,657)	$ 707,098
Timing of revenue recognition						
Products transferred at a point in time	$ 251,095	$ 302,850	$ 158,810	$ 712,755	$ (5,657)	$ 707,098
Products and services transferred over time	-	-	-	-	-	-
Total sales	$ 251,095	$ 302,850	$ 158,810	$ 712,755	$ (5,657)	$ 707,098

	Year Ended December 31, 2016					
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Total Reportable Segments	Other	Total
Primary geographical markets						
United States	$ 272,088	$ 158,195	$ 134,125	$ 564,408	$ (5,347)	$ 559,061
Other	6,301	24,786	629	31,716	-	31,716
Total sales	$ 278,389	$ 182,981	$ 134,754	$ 596,124	$ (5,347)	$ 590,777
Timing of revenue recognition						
Products transferred at a point in time	$ 278,389	$ 182,981	$ 134,754	$ 596,124	$ (5,347)	$ 590,777
Products and services transferred over time	-	-	-	-	-	-
Total sales	$ 278,389	$ 182,981	$ 134,754	$ 596,124	$ (5,347)	$ 590,777

NOTE 2 – ACQUISITION ACTIVITIES

2018 Acquisition

On December 17, 2018, the Company acquired the assets and assumed certain liabilities of Strobes-R-Us, Inc. ("SRUS"), a premier provider of up-fit services for government and non-government vehicles. The acquisition will enable the Company to increase its product offerings to both fleet and emergency response customers, while further expanding its manufacturing capabilities into the southeastern U.S. market. As part of this acquisition, Spartan acquired Strobes-R-Us' state-of-the-art up-fit facility and product showroom in Pompano Beach, Florida.

Purchase Price Allocation

The total purchase price paid for our acquisition of SRUS was $9,982, subject to a net working capital adjustment. The consideration paid consisted of $5,200 in cash, Company stock valued at $1,950, plus a $2,832 contingency for performance-based earn-out payments. The price paid pursuant to the purchase agreement was the subject of negotiation between SRUS and us.

(Dollar amounts in thousands, except per share data)

This acquisition was accounted for using the acquisition method of accounting, which requires the purchase price to be allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition. The excess of the estimated purchase price over the preliminary estimated fair values of the net tangible and intangible assets acquired of $6,406 was recorded as preliminary estimated goodwill.
The fair value of the net assets acquired was based on a preliminary valuation and the estimates and assumptions are subject to change within the measurement period. The Company is continuing to evaluate the (i) inventory, (ii) intangible assets, (iii) deferred taxes and liabilities, (iv) income tax and non-income tax accruals and (v) the contingent consideration. The Company will finalize the purchase price allocation as soon as practicable within the measurement period, but in no event later than one year following the acquisition date.

The initial allocation of purchase price to assets acquired and liabilities assumed was as follows:

Accounts receivable	$ 1,165
Inventory	893
Other current assets	3
Property, plant and equipment	1,942
Goodwill	6,406
Total assets acquired	10,409
Accounts payable	382
Other current liabilities	45
Total liabilities assumed	427
Total purchase price	$ 9,982

Contingent Consideration
Pursuant to the purchase agreement, the former owners of SRUS may receive additional consideration through 2021 in the form of certain performance-based earn-out payments, up to an aggregate maximum of $3,250. The purchase agreement specifies annual payments for each calendar year beginning in 2019 through and including 2021 as a percentage of and contingent upon EBITDA for that calendar year exceeding predetermined thresholds. In accordance with accounting guidance for business combinations, at the date of sale the Company recorded a contingent liability of $2,832 for the value of the future consideration based upon its best estimate of the likelihood of the payments, discounted to its present value using a discount rate of 4.7%.

2017 Acquisition

On January 1, 2017, we completed the acquisition of substantially all of the assets and assumed certain liabilities of Smeal pursuant to an Asset Purchase Agreement dated December 12, 2016. This acquisition brings significant scale to our Emergency Response Vehicles segment, expands the geographic reach of our dealer network and adds complementary products to our existing emergency response product portfolio.

Purchase Price Allocation
The total purchase price paid for our acquisition of Smeal was $41,513, subject to a net working capital adjustment and the tax gross-up payment described below. The consideration paid consisted of $28,903 in cash, net of cash acquired of $3,825, and the forgiveness of certain liabilities owed by the former owners of Smeal to the Company in the amount of $7,391. Pursuant to the purchase agreement, the sellers received additional consideration in the form of a tax gross-up payment in the amount of $701, which was paid in the second quarter of 2018. The consideration paid was subject to certain post-closing adjustments, including a net working capital adjustment that was finalized in the first quarter of

(Dollar amounts in thousands, except per share data)

2018. Smeal has been a significant chassis customer of Spartan USA. The price paid pursuant to the purchase agreement was the subject of negotiation between Smeal and us.

This acquisition was accounted for using the acquisition method of accounting with the purchase price allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition. Identifiable intangible assets included trade-names and certain non-patented technology. The excess of the purchase price over the estimated fair values of the net tangible and intangible assets acquired of $11,456 was recorded as goodwill. During 2017, we made certain adjustments to our purchase price allocation to adjust inventory, other current assets, accrued warranty and other liabilities, which resulted in a $1,787 increase in goodwill.

The allocation of purchase price to assets acquired and liabilities assumed was as follows:

Cash	$ 3,825
Accounts receivable	6,523
Inventory	61,716
Other current assets	662
Property, plant and equipment	5,773
Intangible assets	3,900
Goodwill	11,456
Total assets acquired	93,855
Accounts payable	3,941
Customer prepayments	42,929
Accrued warranty	3,689
Other liabilities	1,783
Total liabilities assumed	52,342
Total purchase price	$ 41,513

Contingent Consideration
Pursuant to the purchase agreement, the former owners of Smeal received additional consideration in the form of a tax gross-up payment to cover certain state and federal tax liabilities for the tax year ending December 31, 2017 that resulted from the transaction. The payment was $701 and was made in the second quarter of 2018.

Goodwill Assigned
The acquisition resulted in the recognition of $11,456 of goodwill, which is deductible for tax purposes.

Goodwill consists of synergies resulting from the acquisition and the estimated value of the workforce employed. Key areas of cost savings included an expanded dealer network; complementary product portfolios; manufacturing and supply chain work process improvements; and the elimination of redundant corporate overhead.

(Dollar amounts in thousands, except per share data)

NOTE 3 – INVENTORIES

Inventories are summarized as follows:

	December 31, 2018	December 31, 2017
Finished goods	$ 14,696	$ 15,539
Work in process	5,926	15,980
Raw materials and purchased components	52,474	49,159
Reserve for slow-moving inventory	(3,104)	(2,986)
Total Inventory	$ 69,992	$ 77,692

We also have a number of demonstration units as part of our sales and training program. These demonstration units are included in the "Finished goods" line item above, and amounted to $8,807 and $7,435 at December 31, 2018 and 2017. When the demonstration units are sold, the cost related to the demonstration unit is included in Cost of products sold on our Consolidated Statements of Operations.

NOTE 4 – RESTRUCTURING CHARGES

During 2018, we incurred restructuring charges related to a company-wide initiative to streamline operations and consolidate our Delavan, Wisconsin production into our Brandon, South Dakota operations

During 2017, we incurred restructuring charges related to a company-wide initiative to streamline operations and integrate our Smeal acquisition.

Restructuring charges included in our Consolidated Statements of Operations for the years ended December 31, 2018 and 2017, broken down by segment, are as follows:

	December 31, 2018				
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Other	Total
Cost of products sold					
Accrual for severance	$ -	$ 15	$ 16	$ -	$ 31
Production relocation	-	271	-	-	271
	-	286	16	-	302
General and Administrative					
Accrual for severance	-	497	164	486	1,147
Production relocation	-	282	-	-	282
Total General and Administrative	-	779	164	486	1,429
Total restructuring	$ -	$ 1,065	$ 180	$ 486	$ 1,731

	December 31, 2017				
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Other	Total
Cost of products sold					
Accrual for severance	$ 97	$ 43	$ 30	$ -	$ 170
Production relocation	-	38	-	-	38
	97	81	30	-	208
General and Administrative					
Accrual for severance	547	367	79	51	1,044
Total restructuring	$ 644	$ 448	$ 109	$ 51	$ 1,252

During 2016, we incurred restructuring charges related to the relocation of our Ocala, Florida manufacturing operations to our Charlotte, Michigan and Brandon, South Dakota facilities, along with efforts undertaken to upgrade production processes at our Brandon, South Dakota and Ephrata, Pennsylvania locations.

Restructuring charges included in our Consolidated Statements of Operations for the year ended December 31, 2016, which were all related to our Emergency Response Vehicles segment, are as follows:

	December 31, 2016
Cost of products sold	
Production relocation/equipment impairment	$ 136
Accrual for severance	-
Total cost of products sold	136
General and Administrative	
Manufacturing process reengineering	959
Accrual for severance	-
Total general and administrative	959
Total restructuring	$ 1,095

The following table provides a summary of the compensation related charges incurred during the year ended December 31, 2018 as part of our restructuring initiatives, along with the related outstanding balances to be paid in relation to those expenses, which is reflected within Accrued compensation and related taxes on our Consolidated Balance Sheets.

	Severance 2018	Severance 2017
Balance January 1,	$ 12	$ -
Accrual for severance	19	643
Payments and adjustments made in period	(27)	(201)
Balance March 31,	4	442
Accrual for severance	797	325
Payments and adjustments made in period	(4)	(540)
Balance June 30,	797	227
Accrual for severance	356	232
Payments and adjustments made in period	(559)	(366)
Balance September 30,	594	93
Accrual for severance	6	14
Payments and adjustments made in period	(309)	(95)
Balance December 31,	$ 291	$ 12

There were no compensation related charges incurred during the year ended December 31, 2016.

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

Goodwill

We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, or whenever an event or change in circumstances occurs that would more likely than not reduce the fair value of a reporting unit below its carrying amount. See "Goodwill and Other Intangible Assets" within Note 1, *General and Summary of Accounting Policies* for a description of our accounting policies regarding goodwill and other intangible assets.

As described in Note 2 - *Acquisition Activities,* we acquired substantially all of the assets and related liabilities of SRUS on December 17, 2018. The difference between the consideration paid and the acquisition-date fair value of the identifiable assets acquired and liabilities assumed was recognized as goodwill, as disclosed in the table below in the Fleet Vehicles and Services segment.

We also acquired substantially all of the assets and related liabilities of Smeal on January 1, 2017. The difference between the consideration paid and the acquisition-date fair value of the identifiable assets acquired and liabilities assumed was recognized as goodwill, as disclosed in the table below. The goodwill at Smeal was evaluated as part of the annual assessment which occurred as of October 1, 2018, since there was no triggering event necessitating an earlier evaluation.

During the second quarter of 2017, operations related to the manufacturing of our Reach delivery vehicle were reassigned to our Specialty Chassis and Vehicles segment from our Fleet Vehicles and Services segment to reflect the information and reports that our chief operating decision makers use to allocate resources to and assess the performance of our operating segments. As a result, a portion of the goodwill in the amount of $638 assigned to our Fleet Vehicles and Services segment was reassigned to our Specialty Chassis and Vehicles segment using a relative fair value approach.

At December 31, 2018 and 2017, we had recorded goodwill at our Fleet Vehicles and Services, Emergency Response Vehicles and Specialty Chassis and Vehicles reportable segments. The Fleet Vehicles and Services and Emergency Response Vehicles reportable segments were determined to be reporting units for goodwill impairment testing, while the reporting unit for the goodwill recorded in the Specialty Chassis and Vehicles segment was determined to be limited to the Reach Manufacturing component of that reportable segment. The goodwill recorded in these reporting units was evaluated for impairment as of October 1, 2018 and 2017 using a discounted cash flow valuation.

Based on the discounted cash flow valuations at October 1, 2018, an increase in the weighted average cost of capital ("WACC") used for these reporting units of 400 basis points would not result in impairment. As discussed in Note 1, *General and Summary of Accounting Policies*, there are significant judgments inherent in our impairment assessments and discounted cash flow analyses. These discounted cash flow analyses are most sensitive to the WACC assumption.

(Dollar amounts in thousands, except per share data)

Our goodwill by reportable segment is as follows:

	Fleet Vehicles and Services December 31,		Emergency Response Vehicles December 31,		Specialty Vehicles and Chassis December 31,		Total December 31,	
	2018	2017	2018	2017	2018	2017	2018	2017
Goodwill, beginning of year	$ 15,323	$ 15,961	$ 11,456	$ -	$ 638	$ -	$ 27,417	$ 15,961
Acquisition of Smeal	-	-	-	11,456	-	-	-	11,456
Acquisition of Strobes-R-Us	6,406	-	-	-	-	-	6,406	-
Reassignment of goodwill	-	(638)	-	-	-	638	-	-
Goodwill, end of year	$ 21,729	$ 15,323	$ 11,456	$ 11,456	$ 638	$ 638	$ 33,823	$ 27,417

Other Intangible Assets

Fleet Vehicles and Services segment intangible assets
At December 31, 2018, we had other intangible assets associated with our Fleet Vehicles and Services segment, including customer and dealer relationships, non-compete agreements, an acquired product development project and a trade name. The non-compete agreement, acquired product development project and certain other intangible assets are being amortized over their expected remaining useful lives based on the pattern of estimated after-tax operating income generated, or on a straight-line basis. Our Utilimaster trade name has an indefinite life, and is not amortized. We test our trade name for impairment at least annually, and test other intangible assets for impairment if impairment indicators are present.

We tested our Utilimaster trade name for impairment, as of October 1, 2018, by estimating the fair value of the trade name based on estimates of future royalty payments that are avoided through our ownership of the trade name, discounted to their present value. Accordingly, there was no impairment recorded on this trade name. Based on the discounted cash flow valuation at October 1, 2018, an increase in the WACC used for this impairment analysis of 1000 basis points would not result in impairment of the trade name.

Emergency Response Vehicles segment intangible assets
With the acquisition of Smeal, we acquired other intangible assets besides goodwill. We recorded $3,900 in intangible assets from the acquisition. The intangible assets consist of unpatented technology and various trade names. The unpatented technology will be amortized using the straight-line method over its estimated remaining useful life of 10 years, consistent with the pattern of economic benefits estimated to be received. The trade names are considered to have indefinite lives, and as such will not be amortized but will be tested for impairment annually or if events or changes in circumstances indicate that it is more likely than not that the trade names are impaired.

We tested our Smeal trade name for impairment, as of October 1, 2018, by estimating the fair value of the trade name based on estimates of future royalty payments that are avoided through our ownership of the trade name, discounted to their present value. Accordingly, there was no impairment recorded on this trade name. Based on the discounted cash flow valuation at October 1, 2018, an increase in the WACC used for this impairment analysis of 1000 basis points would not result in impairment of the trade name.

(Dollar amounts in thousands, except per share data)

The following table provides information regarding our other intangible assets:

	As of December 31, 2018			As of December 31, 2017		
	Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
Customer and dealer relationships	$ 6,170	$ 4,029	$ 2,141	$ 6,170	$ 3,709	$ 2,461
Acquired product development project	1,860	1,860	-	1,860	1,514	346
Unpatented technology	1,500	300	1,200	1,500	150	1,350
Non-compete agreements	400	400	-	400	400	-
Backlog	320	320	-	320	320	-
Trade Names	5,270	-	5,270	5,270	-	5,270
	$ 15,520	$ 6,909	$ 8,611	$ 15,520	$ 6,093	$ 9,427

We recorded $816, $858 and $708 of intangible asset amortization expense during 2018, 2017 and 2016.

The estimated remaining amortization associated with finite-lived intangible assets is expected to be expensed as follows:

	Amount
2019	$ 449
2020	423
2021	399
2022	377
2023	357
Thereafter	1,336
Total	$ 3,341

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized by major classifications as follows:

	December 31,	
	2018	**2017**
Land and improvements	$ 8,496	$ 7,754
Buildings and improvements	68,142	66,227
Plant machinery and equipment	41,652	39,800
Furniture and fixtures	24,585	22,285
Vehicles	3,084	3,063
Construction in process	5,666	1,770
Subtotal	151,625	140,899
Less accumulated depreciation	(95,058)	(85,722)
Total property, plant and equipment, net	$ 56,567	$ 55,177

(Dollar amounts in thousands, except per share data)

We recorded depreciation expense of $9,559, $9,055 and $7,195 during 2018, 2017 and 2016. There were no capitalized interest costs in 2018 or 2017.

Construction in progress includes $5,228 and $790 at December 31, 2018 and 2017 for the implementation of our ERP system. The first phase of implementation was completed in 2017 and sites were completed in 2018. Additional phases of implementation are expected to go live in 2019 through 2021 with an estimated cost of completion of approximately $16,000.

We review our long-lived assets that have finite lives for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

When reviewing long-lived assets for impairment, we group our long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. During the year ended December 31, 2016, we determined that an asset group related to certain locations of our Emergency Response Vehicles segment may be impaired due to operating losses recorded in recent years, along with uncertainty regarding future financial performance at these locations. Accordingly, we conducted an impairment test on this asset group as of October 1, 2016 by comparing the non-discounted cash flows expected to result from the use and eventual disposition of the asset group with its carrying value, resulting in a determination that the asset group was impaired.

We estimated the fair value of our tangible long-lived assets of this asset group based on assessments or recent sale prices of similar assets. Impairment charges recorded within Cost of goods sold in the Consolidated Statement of Operations to adjust the carrying cost of these long-lived tangible assets to their estimated fair value at October 1, 2016 were $406 for machinery and equipment. No additional charges were recorded for the years ended December 31, 2018 and 2017.

NOTE 7 - LEASES

We lease certain office equipment, computer hardware, manufacturing equipment and manufacturing and warehouse space under operating lease agreements. Building leases generally provide that we pay the cost of utilities, insurance, taxes and maintenance. Rent expense for the years ended December 31, 2018, 2017 and 2016 was $3,309, $2,989 and $3,086.

Future minimum operating lease commitments under non-cancelable leases are as follows:

Year	Future Minimum Operating Lease Payments
2019	$ 3,291
2020	2,831
2021	2,193
2022	1,849
2023	1,863
Thereafter	4,149
Total	$ 16,176

We lease certain office equipment, computer hardware and material handling equipment under capital lease agreements. Cost and accumulated depreciation of capitalized leased assets included in machinery and equipment are $645 and $504, respectively, at December 31, 2018.

(Dollar amounts in thousands, except per share data)

NOTE 8 - TAXES ON INCOME

Income taxes consist of the following:

	Year Ended December 31,		
	2018	2017	2016
Current (credit):			
Federal	$ 2,037	$ 3,809	$ 2,203
State	912	255	563
Foreign	67	-	-
Total current	3,016	4,064	2,766
Deferred (credit):			
Federal	(471)	(1,743)	(2,666)
State	(284)	(2,231)	-
Total deferred	(755)	(3,974)	(2,666)
Total taxes on income	$ 2,261	$ 90	$ 100

The current tax expense amount in 2016 differs from the actual amount payable to the taxing authorities due to the tax impact associated with stock incentive plan transactions under the plans described in Note 13, *Stock Based Compensation*. This adjustment was an addition of $123 in 2016. These adjustments to current taxes on income were recognized as adjustments of additional paid-in capital. Commencing January 1, 2017, all such adjustments are recognized as current taxes on income.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. The Tax Act made broad and complex changes to the U.S. tax code that impacted the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017. Other changes provided by the 2017 Tax Act included, but are not limited to, the acceleration of depreciation for certain assets placed into service after September 27, 2017, additional limitations on executive compensation, the repeal of the domestic manufacturing deduction and the new foreign derived intangible income deduction.

The SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provided guidance on accounting for the tax effects of the Tax Act. We recognized the income tax effects of the Tax Act in our 2017 financial statements in accordance with SAB 118, in the reporting period in which the Tax Act was signed into law.

In accordance with SAB 118, we recorded a provisional amount of $2,963 of the deferred tax expense in connection with the re-measurement of certain deferred tax assets and liabilities as of December 31, 2017. In 2018 we completed the accounting for the effect of the 2017 Tax Act within the measurement period under the SEC guidance, and reflected a net $373 decrease in the 2018 income tax expense.

(Dollar amounts in thousands, except per share data)

Differences between the expected income tax expense derived from applying the federal statutory income tax rate to earnings from continuing operations before taxes on income and the actual tax expense are as follows:

	Year Ended December 31,					
	2018		2017		2016	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Federal income taxes at the statutory rate	$ 3,627	21.00%	$ 5,609	35.00%	$ 2,959	34.00%
State tax expense, net of federal income tax benefit	368	2.13	547	3.41	68	0.78
Increase (decrease) in income taxes resulting from:						
Deferred income tax re-measurement due to Tax Act	(373)	(2.16)	2,963	18.49	-	-
Other deferred income tax adjustment	(46)	(0.27)	(241)	(1.50)	(51)	(0.59)
Non-deductible compensation	-	-	-	-	459	5.27
Other nondeductible expenses	178	1.03	156	0.97	226	2.60
Foreign derived intangible income deduction	(69)	(0.40)	-	-	-	-
Domestic manufacturing deduction	-	-	(504)	(3.15)	-	-
Stock based compensation	(1,406)	(8.14)	(394)	(2.46)	-	-
Worthless stock deduction of dissolved subsidiary	-	-	(966)	(6.03)	-	-
Forfeiture of state net operating loss and credit carry-forwards from dissolution of subsidiary	-	-	3,039	18.97	-	-
Foreign tax expense	67	0.39	-	-	-	-
Valuation allowance adjustment	60	0.35	(9,544)	(59.56)	(2,932)	(33.69)
Unrecognized tax benefit adjustment	401	2.32	314	1.96	129	1.48
Federal research and development tax credit	(645)	(3.73)	(753)	(4.70)	(801)	(9.20)
Foreign tax credit	(67)	(0.39)	-	-	-	-
Other	166	0.96	(136)	(0.84)	43	0.50
Total	$ 2,261	13.09%	$ 90	0.56%	$ 100	1.15%

(Dollar amounts in thousands, except per share data)

Temporary differences which give rise to deferred income tax assets (liabilities) are as follows:

	December 31, 2018	December 31, 2017
Deferred income tax assets:		
Warranty reserve	$ 3,257	$ 3,595
Inventory costs and reserves	1,801	1,792
Contract assets	1,694	-
Stock based compensation	984	1,061
Net operating loss carry-forwards, net of federal income tax benefit	723	954
Compensation related accruals	589	663
Credit carry-forwards, net of federal income tax benefit	506	317
Vendor compensation	-	507
Other	611	409
Total deferred income tax assets	$ 10,165	$ 9,298
Deferred income tax liabilities:		
Depreciation	$ (1,479)	$ (1,230)
Intangible assets	(1,205)	(574)
Prepaid expenses	(222)	(152)
Total deferred income tax liabilities	$ (2,906)	$ (1,956)
Net deferred income tax assets	$ 7,259	$ 7,342
Valuation allowance	(118)	(58)
Net deferred tax asset	$ 7,141	$ 7,284

Based upon an assessment of the available positive and negative evidence at December 31, 2018, the net deferred tax asset is more likely than not to be realized based on the consideration of deferred tax liability reversals and future taxable income. The valuation allowance for net deferred income tax assets relates to the impact of the limitation on executive compensation deductibility to Stock based compensation, and a state net operating loss carryforward.

At December 31, 2018 and 2017, we had state deferred income tax assets related to state tax net operating loss carry-forwards, of $915 and $1,207, which begin expiring in 2019. Also, as of December 31, 2018 and 2017, we had deferred income tax assets related to state tax credit carry-forwards of $640 and $402, which begin expiring in 2026. Due to accumulated losses in a certain state jurisdiction, we had recorded valuation allowances against certain deferred income tax assets of $20 and $58 at December 31, 2018 and 2017.

A reconciliation of the change in the unrecognized tax benefits ("UTB") for the three years ended December 31, 2018, 2017 and 2016 is as follows:

	2018	**2017**	**2016**
Balance at January 1,	$ 565	$ 345	$ 349
Increase (decrease) related to prior year tax positions	35	168	(24)
Increase related to current year tax positions	319	118	20
Expiration of statute	(92)	(66)	-
Balance at December 31,	$ 827	$ 565	$ 345

(Dollar amounts in thousands, except per share data)

As of December 31, 2018, we had an ending UTB balance of $827 along with $422 of interest and penalties, for a total liability of $1,249, with $597 recorded as a current liability and $652 recorded as a non-current liability based on the applicable statutes of limitations. The change in interest and penalties amounted to increases of $143 in 2018, $94 in 2017, and $133 in 2016, which were reflected in Income tax expense within our Consolidated Statements of Operations.

As of December 31, 2018, we are no longer subject to examination by federal taxing authorities for 2014 and earlier years.

We also file tax returns in a number of states and those jurisdictions remain subject to audit in accordance with relevant state statutes. These audits can involve complex issues that may require an extended period of time to resolve and may cover multiple years. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given fiscal period could be impacted. However, we do not expect such impacts to be material to our financial statements. An unfavorable tax settlement would require use of our cash and could result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement could result in a reduction in our effective income tax rate in the period of resolution. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease over the next twelve months.

NOTE 9 - TRANSACTIONS WITH MAJOR CUSTOMERS

Major customers are defined as those with sales greater than 10 percent of consolidated sales in a given year.

We had one customer classified as a major customer in 2018, which was a customer of the Fleet Vehicles and Services segment and one major customer in 2016, which was a customer of the Specialty Chassis and Vehicles segment.

There were no customers that accounted for 10 percent or greater of consolidated sales in 2017.

Information about our major customers is as follows:

2018		2016	
Sales	Accounts Receivable (at year end)	Sales	Accounts Receivable (at year end)
$ 81,728	$ 17,232	$ 70,954	$ 7,169

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Under the terms of our credit agreement with our banks, we have the ability to issue letters of credit totaling $20,000. At December 31, 2018 and 2017, we had outstanding letters of credit totaling $913 and $754 related to certain emergency response vehicle contracts and our workers compensation insurance.

At December 31, 2018, we and our subsidiaries were parties, both as plaintiff and defendant, to a number of lawsuits and claims arising out of the normal course of our business. In the opinion of management, our financial position, future operating results or cash flows will not be materially affected by the final outcome of these legal proceedings.

Spartan-Gimaex joint venture

In February 2015, Spartan USA and Gimaex Holding, Inc. mutually agreed to begin discussions regarding the dissolution of the Spartan-Gimaex joint venture. In June 2015, Spartan USA and Gimaex Holding, Inc. entered into court proceedings to determine the terms of the dissolution. In February 2017, by agreement of the parties, the court proceeding was dismissed with prejudice and the judge entered an order to this effect as the parties agreed to seek a dissolution plan on their own. No dissolution terms have been determined as of the date of this Form 10-K. Costs associated with the wind-down will be impacted by the final dissolution agreement. In accordance with accounting guidance, the costs we have accrued so far represent the low end of the range of the estimated total charges that we believe we may incur related to the wind-down. While we are unable to determine the final cost of the wind-down with certainty at this time, we may incur additional charges, depending on the final terms of the dissolution, and such charges are not expected to be material to our future operating results. There were no further wind-down charges recorded during the year ended December 31, 2018.

(Dollar amounts in thousands, except per share data)

Warranty Related

We provide limited warranties against assembly/construction defects for periods generally ranging from two years to the life of the product. These warranties generally provide for the replacement or repair of defective parts or workmanship for a specified period following the date of sale. The end users also may receive limited warranties from suppliers of components that are incorporated into our chassis and vehicles.

Our policy is to record a provision for the estimated cost of warranty-related claims at the time of the sale and periodically adjust the provision and liability to reflect actual experience. The amount of warranty liability accrued reflects our best estimate of the expected future cost of honoring our obligations under the warranty agreements. Historically, the cost of fulfilling our warranty obligations has principally involved replacement parts and labor for field retrofit campaigns. Our estimates are based on historical experience, the number of units involved and the extent of features and components included in product models.

Certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. Material warranty issues can arise which are beyond the scope of our historical experience. We provide for any such warranty issues as they become known and are estimable. It is reasonably possible that additional warranty and other related claims could arise from disputes or other matters beyond the scope of our historical experience.

Changes in our warranty liability during the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Balance of accrued warranty at January 1	$ 18,268	$ 19,334
Warranties issued during the period	7,470	7,539
Cash settlements made during the period	(10,838)	(13,854)
Changes in liability for pre-existing warranties during the period, including expirations	1,190	1,560
Assumed warranties outstanding at Smeal on January 1, 2017	-	3,689
Balance of accrued warranty at December 31	$ 16,090	$ 18,268

NOTE 11 - COMPENSATION INCENTIVE PLANS

We sponsor defined contribution retirement plans which cover all associates who meet length of service and minimum age requirements. Our matching contributions vest over 5 years and were $2,286, $1,055 and $796 in 2018, 2017 and 2016. These amounts are expensed as incurred.

The Spartan Motors, Inc. Incentive Compensation Plan encompasses a quarterly and an annual bonus program. The quarterly program covers certain of our full-time employees. The cash bonuses paid under the quarterly program are equal for all participants. Amounts expensed for the quarterly bonus were $2,063, $2,193 and $3,298 for 2018, 2017 and 2016.

(Dollar amounts in thousands, except per share data)

The annual bonus provides that executive officers and certain designated managers may earn cash bonuses based on our achievement of pre-defined financial and operational objectives. Amounts expensed for the annual bonus were $2,053, $4,890 and $6,470 for 2018, 2017 and 2016.

NOTE 12 - DEBT

Long-term debt consists of the following:

	December 31, 2018	December 31, 2017
Line of credit revolver (1):	$ 25,460	$ 17,800
Capital lease obligations (See Note 7 – *Leases*)	147	189
Total debt	25,607	17,989
Less current portion of long-term debt	(60)	(64)
Total long-term debt	$ 25,547	$ 17,925

(1) On August 8, 2018, we entered into a Credit Agreement (the "Credit Agreement") by and among us and certain of our subsidiaries, as borrowers, Wells Fargo Bank, N.A., as administrative agent ("Wells Fargo"), and the lenders party thereto consisting of Wells Fargo, JPMorgan Chase Bank, N.A. and PNC Bank National Association (the "Lenders"). Under the Credit Agreement, we may borrow up to $150,000 from the Lenders under a five-year secured revolving credit facility. The credit facility matures August 8, 2023. We may also request an increase in the facility of up to $75,000 in the aggregate, subject to customary conditions. The credit facility is also available for the issuance of letters of credit of up to $20,000 and swing line loans of up to $15,000, subject to certain limitations and restrictions. This line carries an interest rate of either (i) the highest of prime rate, the federal funds effective rate from time to time plus 0.5%, or the one month adjusted LIBOR plus 1.0%; or (ii) adjusted LIBOR plus margin based upon our ratio of debt to earnings from time to time. The applicable borrowing rate including margin was 3.8125% (or one-month LIBOR plus 1.25%) at December 31, 2018. The credit facility is secured by security interests in, and liens on, all assets of the borrowers, other than real property and certain other excluded assets.

On December 1, 2017, we entered into a First Amendment to the Second Amended and Restated Credit Agreement (the "First Credit Agreement") by and among us and certain of our subsidiaries, as borrowers, Wells Fargo Bank, National Association, as agent, and the lenders party thereto consisting of Wells Fargo Bank, National Association, JPMorgan Chase Bank, N.A. and PNC Bank National Association. Under the First Credit Agreement, we were able to borrow up to $100,000 under a three-year unsecured revolving credit facility. The First Credit Agreement was paid off and terminated when the Credit Agreement described above was entered into on August 8, 2018. This line carried an interest rate of the higher of either (i) the highest of prime rate, the federal funds effective rate plus 0.5%, or the one month adjusted LIBOR plus 1.00%; or (ii) adjusted LIBOR plus margin based upon our ratio of debt to earnings from time to time.

Under the terms of our Credit Agreement we are required to maintain certain financial ratios and other financial covenants, which limited our available borrowings under our line of credit to a total of approximately $86,410 and $66,400 at December 31, 2018 and December 31, 2017, respectively. The agreement also prohibits us from incurring additional indebtedness; limits certain acquisitions, investments, advances or loans; limits our ability to pay dividends in certain circumstances; and restricts substantial asset sales. At December 31, 2018 and December 31, 2017, we were in compliance with all covenants in our credit agreement.

NOTE 13 - STOCK BASED COMPENSATION

We have stock incentive plans covering certain employees and non-employee directors. Shares reserved for stock awards under these plans total 2,856,250. Total shares remaining available for stock incentive grants under these plans totaled 1,755,330 at December 31, 2018. We are currently authorized to grant new stock options, restricted stock, restricted stock units, stock appreciation rights and common stock under our Stock Incentive Plan of 2016.

Stock Options and Stock Appreciation Rights. Granted options and Stock Appreciation Rights (SARs) are generally exercisable for a period of 10 years from the grant date. The exercise price for all options and the base price for all SARs granted have been equal to the market price at the date of grant. Dividends are not paid on unexercised options or SARs. SARs have historically been settled with shares of common stock upon exercise.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the fair value of the stock on the date of exercise over the exercise price of the options. As required, we report any excess tax benefits in our Consolidated Statement of Cash Flows as operating cash flows. Excess tax benefits derive from the difference between the tax deduction and the fair market value of the option as determined by the Black-Scholes valuation model.

No options were granted or exercised in 2018, 2017 or 2016, and there was no related compensation expense nor income tax benefit recognized in the corresponding income statements. We have had no outstanding options since December 31, 2015.

No SARs were granted in 2018, 2017 or 2016, and there was no related compensation expense nor income tax benefit recognized in the corresponding income statements. We have had no outstanding SARs since December 31, 2017. The total intrinsic value of SARs exercised during the years ended December 31, 2018, 2017 and 2016 was $0, $305 and $14.

Restricted Stock Awards. We issue restricted stock, at no cash cost, to our directors, officers and key employees. Shares awarded entitle the shareholder to all rights of common stock ownership except that the shares are subject to the risk of forfeiture and may not be sold, transferred, pledged, exchanged or otherwise disposed of during the vesting period, which is generally three to five years. The unearned stock-based compensation related to restricted stock awards, using the market price on the date of grant, is being amortized to compensation expense over the applicable vesting periods. Cash dividends are paid on unvested restricted stock grants and all such dividends vest immediately.

We receive an excess tax benefit or liability during the period the restricted shares vest. The excess tax benefit (liability) is determined by the excess (shortfall) of the market price of the stock on date of vesting over (under) the grant date market price used to amortize the awards to compensation expense. As required, any excess tax benefits or liabilities are reported in the Consolidated Statements of Cash Flows as operating cash flows.

Restricted stock activity for the year ended December 31, 2018, is as follows:

	Total Number of Non-vested Shares (000)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Vesting Life (Years)
Non-vested shares outstanding at December 31, 2017	1,128	$ 6.53	
Granted	593	9.96	
Vested	(629)	10.14	
Forfeited	(115)	6.86	
Non-vested shares outstanding at December 31, 2018	977	7.97	1.11

The weighted-average grant date fair value of non-vested shares granted was $9.96, $7.65 and $4.01 for the years ended December 31, 2018, 2017 and 2016. During 2018, 2017 and 2016, we recorded compensation expense, net of cancellations, of $4,027, $3,536 and $1,536, related to restricted stock awards and direct stock grants. The total income tax benefit recognized in the Consolidated Statements of Operations related to restricted stock awards was $846, $1,238 and $538 for 2018, 2017 and 2016. For the years ended December 31, 2018, 2017 and 2016, restricted shares vested with a fair market value of $4,318, $1,356 and $1,248. When the fair value of restricted shares is lower on the date of vesting than that previously expensed for book purposes, an excess tax liability is booked. As of December 31, 2018, we had unearned stock-based compensation of $5,119 associated with these restricted stock grants, which will be recognized over a weighted average of 1.11 years.

Employee Stock Purchase Plan. We instituted an employee stock purchase plan ("ESPP") beginning on October 1, 2011 whereby essentially all employees who meet certain service requirements can purchase our common stock on quarterly offering dates at 90% of the fair market value of the shares on the purchase date. A maximum of 750,000 shares are authorized for purchase until the ESPP termination date of February 24, 2021, or earlier termination of the ESPP. During the years ended December 31, 2018, 2017 and 2016, we received proceeds of $214, $98 and $86 for the purchase of 20,000, 9,000 and 13,000 shares under the ESPP.

NOTE 14 – SHAREHOLDERS EQUITY

On April 28, 2016, our Board of Directors authorized the repurchase of up to 1 million shares of our common stock in open market transactions.

The following table represents our purchases of our common stock during the years ended December 31, 2018 and 2017 under the share repurchase program.

Share purchase programs			2018		2017		
Authorized amount (shares) (000)	Date approved by board	Program termination date	Shares purchased (000)	Purchase value	Shares purchased (000)	Purchase value	Remaining shares allowable to be purchased
1,000	April, 2016	N/A	90	$ 656	-	$ -	910

NOTE 15 – EARNINGS PER SHARE

The table below reconciles basic weighted average common shares outstanding to diluted weighted average shares outstanding for 2018, 2017 and 2016 (in thousands). The stock awards noted as antidilutive were not included in the diluted (in the case of stock options) or basic (in the case of unvested restricted stock awards) weighted average common shares outstanding. Although these stock awards were not included in our calculation of basic or diluted earnings per share ("EPS"), they may have a dilutive effect on the EPS calculation in future periods if the price of our common stock increases.

	Year Ended December 31,		
	2018	2017	2016
Basic weighted average common shares outstanding	35,187	34,949	34,405
Diluted weighted average common shares outstanding	35,187	34,949	34,405
Antidilutive stock awards:			
Unvested restricted stock awards	-	-	-

NOTE 16 - BUSINESS SEGMENTS

We identify our reportable segments based on our management structure and the financial data utilized by our chief operating decision makers to assess segment performance and allocate resources among our operating units. We have three reportable segments: Fleet Vehicles and Services, Emergency Response Vehicles, and Specialty Chassis and Vehicles.

As a result of a realignment of our operating segments completed during the second quarter of 2017, certain fleet vehicles are now manufactured by our Specialty Chassis and Vehicles segment and sold via inter-company transactions to our Fleet Vehicles and Services segment, which then sells the vehicles to the final customer. Segment results from prior periods are shown reflecting the estimated impact of this realignment as if it had been in place for those periods. Another realignment of our operating segments was completed during the second quarter of 2016, whereby aftermarket parts and accessories related to emergency response vehicles, which were formerly reported under the Specialty Chassis and Vehicles segment, are now included in the Emergency Response Vehicles segment. Appropriate expense amounts are allocated to the three reportable segments and are included in their reported operating income or loss.

Beginning in 2017, we evaluate the performance of our reportable segments based on Adjusted EBITDA. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, as adjusted by other adjustments made in order to present comparable results from period to period. These adjustments include restructuring charges and items related to our acquisitions of SRUS and Smeal, such as expenses incurred to complete the acquisition and other purchase accounting related items that impacted current period operating income. We exclude these items from earnings because we believe they will be incurred infrequently and/or are otherwise not indicative of a segment's regular, ongoing operating performance. Adjusted EBITDA is also used as a performance metric for our executive compensation program, as discussed in our proxy statement for our 2018 annual meeting of shareholders, which proxy statement was filed with the SEC on April 12, 2018.

Our Fleet Vehicles and Services segment consists of our operations at our Bristol, Indiana location, and beginning in 2018 certain operations at our Ephrata, Pennsylvania location, along with our operations at our up-fit centers in Kansas City, Missouri, Ladson, South Carolina, Pompano Beach, Florida and Saltillo, Mexico. The segment focuses on designing and manufacturing walk-in vans for the parcel delivery, mobile retail, and trades and construction industries, and the production of commercial truck bodies, and distributes related aftermarket parts and accessories.

Our Emergency Response Vehicles segment consists of the emergency response chassis operations at our Charlotte, Michigan location and our operations at our Brandon, South Dakota; Snyder and Neligh, Nebraska; and Ephrata, Pennsylvania locations. This segment engineers and manufactures emergency response chassis and apparatus and distributes related aftermarket parts and accessories.

Our Specialty Chassis and Vehicles segment consists of our Charlotte, Michigan operations that engineer and manufacture motor home chassis, defense vehicles and other specialty chassis and distribute related aftermarket parts and assemblies.

The accounting policies of the segments are the same as those described, or referred to, in Note 1, *General and Summary of Accounting Policies*. Assets and related depreciation expense in the column labeled “Eliminations and Other” pertain to capital assets maintained at the corporate level. Eliminations for inter-segment sales are shown in the column labeled “Eliminations and other”. Segment loss from operations in the “Eliminations and other” column contains corporate related expenses not allocable to the operating segments. Interest expense and Taxes on income are not included in the information utilized by the chief operating decision makers to assess segment performance and allocate resources, and accordingly, are excluded from the segment results presented below.

Sales to customers outside the United States were \$50,733, \$81,157 and \$31,716 for the years ended December 31, 2018, 2017 and 2016, or 7.0%, 11.5% and 5.4%, respectively, of sales for those years. All of our long-lived assets are located in the United States.

(Dollar amounts in thousands, except per share data)

Sales and other financial information by business segment are as follows:

Year Ended December 31, 2018

	Segment				
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Other	Consolidated
Fleet vehicles sales	$ 297,627	$ -	$ 10,221	$ (10,221)	$ 297,627
Emergency response vehicles sales	-	235,059	-	-	235,059
Motor home chassis sales	-	-	149,533	-	149,533
Other specialty vehicles sales	-	-	22,570	-	22,570
Aftermarket parts and accessories sales	89,922	10,578	10,875	-	111,375
Total sales	$ 387,549	$ 245,637	$ 193,199	$ (10,221)	$ 816,164
Depreciation and amortization expense	$ 2,401	$ 2,678	$ 1,495	$ 3,796	$ 10,370
Adjusted EBITDA	26,680	1,030	18,732	(14,683)	31,759
Segment assets	117,508	125,338	32,621	78,317	353,784
Capital expenditures	1,859	510	116	6,500	8,985

Year Ended December 31, 2017

	Segment				
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Other	Consolidated
Fleet vehicles sales	$ 207,666	$ -	$ 5,657	$ (5,657)	$ 207,666
Emergency response vehicles sales	-	293,559	-	-	293,559
Motor home chassis sales	-	-	124,584	-	124,584
Other specialty vehicles sales	-	-	18,416	-	18,416
Aftermarket parts and accessories sales	43,429	9,291	10,153	-	62,873
Total sales	$ 251,095	$ 302,850	$ 158,810	$ (5,657)	$ 707,098
Depreciation and amortization expense	$ 3,361	$ 2,342	$ 1,314	$ 2,920	$ 9,937
Adjusted EBITDA	26,958	3,192	14,058	(12,881)	31,327
Segment assets	60,550	133,546	33,700	73,368	301,164
Capital expenditures	562	1,364	386	3,028	5,340

(Dollar amounts in thousands, except per share data)

Year Ended December 31, 2016

	Segment				
	Fleet Vehicles and Services	Emergency Response Vehicles	Specialty Chassis and Vehicles	Other	Consolidated
Fleet vehicles sales	$ 206,248	$ -	$ 5,347	$ (5,347)	$ 206,248
Emergency response vehicles sales	-	175,730	-	-	175,730
Motor home chassis sales	-	-	97,999	-	97,999
Other specialty vehicles sales	-	-	21,074	-	21,074
Aftermarket parts and accessories sales	72,141	7,251	10,334	-	89,726
Total sales	$ 278,389	$ 182,981	$ 134,754	$ (5,347)	$ 590,777
Depreciation and amortization expense	$ 3,185	$ 1,143	$ 789	$ 2,786	$ 7,903
Adjusted EBITDA	31,237	(7,542)	8,334	(9,159)	22,870
Segment assets	65,277	77,887	28,825	71,305	243,294
Capital expenditures	2,011	1,558	6,842	2,999	13,410

The table below presents the reconciliation of our consolidated income before taxes to total segment Adjusted EBITDA. Adjusted EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income. Adjusted EBITDA may have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. In addition, although we have excluded certain charges in calculating Adjusted EBITDA, we may in the future incur expenses similar to these adjustments, despite our assessment that such expenses are infrequent and/or not indicative of our regular, ongoing operating performance. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or infrequent items.

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Consolidated income before taxes	$ 17,273	$ 16,024	$ 8,703
Add (subtract):			
Interest expense	1,080	864	410
Depreciation and amortization expense	10,370	9,937	7,903
Restructuring and other related charges	1,881	1,252	1,095
Acquisition expense	1,952	1,354	882
Impact of intercompany chassis shipments to Smeal	-	2,073	-
Recall expense	(46)	(368)	3,457
Impact of inventory fair value step-up	-	189	-
Joint venture expenses	-	2	14
Asset impairment	-	-	406
Long-term strategic planning expense	995	-	-
Litigation settlements	447		
Impact of acquisition adjustments for net working capital and contingent liability	(2,193)		
Unallocated corporate expenses	14,683	12,881	9,159
Total segment adjusted EBITDA	$ 46,442	$ 44,208	$ 32,029

(Dollar amounts in thousands, except per share data)

NOTE 17 – RELATED PARTY TRANSACTIONS

Richard Dauch, who serves on the Spartan Motors Board of Directors, is the Chief Executive Officer of Accuride, Inc. During the years ended December 31, 2018 and 2017, we made purchases of $799 and $698 from Accuride Distributing, a subsidiary of Accuride, Inc., for parts used in the manufacture of our products. These purchases were made through a competitive bid process.

NOTE 18 - QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for the years ended December 31, 2018 and 2017 is as follows (full year amounts may not sum due to rounding):

	2018 Quarter Ended				2017 Quarter Ended			
	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30	Dec 31
Sales	$ 173,038	$ 183,981	$ 226,183	$ 232,961	$ 167,075	$ 169,739	$ 189,215	$ 181,068
Gross profit	22,158	26,369	26,193	23,534	16,394	19,501	28,651	24,689
Restructuring charges	20	797	501	414	642	325	232	52
Net earnings (loss) attributable to Spartan Motors, Inc.	4,194	3,740	5,243	1,833	(1,098)	1,124	13,470	2,439
Basic net earnings (loss) per share	0.12	0.11	0.15	0.05	(0.03)	0.03	0.38	0.07
Diluted net earnings (loss) per share	0.12	0.11	0.15	0.05	(0.03)	0.03	0.38	0.07

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2018. Based on and as of the time of such evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018, based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation our management concluded that our internal control over financial reporting was effective as of December 31, 2018. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in its attestation report, which is included in Item 8 and is incorporated into this Item 9A by reference.

On December 17, 2018, the Company acquired 100% of the assets and assumed certain liabilities of Strobes R Us. As a result, management has excluded Strobes R Us from its assessment of internal control over financial reporting. The Strobes R Us assets are held in a majority-owned subsidiary whose total assets and estimated total net sales represent 2.9% and 1.2%, respectively, of the Company's total assets and net sales as of and for the year ended December 31, 2018.

Changes in Internal Control Over Financial Reporting.

No changes in our internal control over financial reporting were identified as having occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

The information required by this item, with respect to directors, executive officers, audit committee, and audit committee financial experts of the Company and Section 16(a) beneficial ownership reporting compliance is contained under the captions "Spartan Motors' Board of Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for our annual meeting of shareholders to be held on May 22, 2019, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018, and is incorporated herein by reference.

We have adopted a Code of Ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. This Code of Ethics is posted under "Code of Ethics" on our website at www.spartanmotors.com. We have also adopted a Code of Ethics and Compliance applicable to all directors, officers and associates, which is posted under "Code of Conduct" on our website at www.spartanmotors.com. Any waiver from or amendment to a provision of either code will be disclosed on our website.

Item 11. Executive Compensation.

The information required by this item is contained under the captions "Executive Compensation," "Compensation of Directors," "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in our definitive proxy statement for our annual meeting of shareholders to be held on May 22, 2019, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item (other than that set forth below) is contained under the caption "Ownership of Spartan Motors Stock" in our definitive proxy statement for our annual meeting of shareholders to be held on May 22, 2019, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018, and is incorporated herein by reference.

The following table provides information about our equity compensation plans regarding the number of securities to be issued under these plans upon the exercise of outstanding options, the weighted-average exercise prices of options outstanding under these plans, and the number of securities available for future issuance as of December 31, 2018.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (3)
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	--	N/A	1,699,080
Equity compensation plans not approved by security holders (2)	--	N/A	56,250
Total	--	N/A	1,755,330

(1) Consists of the Spartan Motors, Inc. Stock Incentive Plan of 2016 (the "2016 Plan").

(2) Consists of the Spartan Motors, Inc. Directors' Stock Purchase Plan. This plan provides that non-employee directors of the Company may elect to receive at least 25% and up to 100% of their "director's fees" in the form of the Company's common stock. The term "director's fees" means the amount of income payable to a non-employee director for his or her service as a director of the Company, including payments for attendance at meetings of the Company's Board of Directors or meetings of committees of the board, and any retainer fee paid to such persons as members of the board. A non-employee director who elects to receive Company common stock in lieu of some or all of his or her director's fees will, on or shortly after each "applicable date," receive a number of shares of common stock (rounded down to the nearest whole share) determined by dividing (1) the dollar amount of the director's fees payable to him or her on the applicable date that he or she has elected to receive in common stock by (2) the market value of common stock on the applicable date. The term "applicable date" means any date on which a director's fee is payable to the participant. To date, no shares have been issued under this plan.

(3) Each of the plans reflected in the above table contains customary anti-dilution provisions that are applicable in the event of a stock split or certain other changes in the Company's capitalization. Furthermore, the 2016 Plan provides that if a stock option is canceled, surrendered, modified, expires or is terminated during the term of the plan but before the exercise of the option, the shares subject to the option will be available for other awards under the plan.

    The numbers of shares reflected in column (c) in the table above with respect to the 2016 Plan (1,699,080 shares) represent new shares that may be granted by the Company, and not shares issuable upon the exercise of an existing option, warrant or right.

Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>.

The information required by this item is contained under the captions "Transactions with Related Persons" and "Spartan Motors' Board of Directors and Executive Officers" in our definitive proxy statement for our annual meeting of shareholders to be held on May 22, 2019, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018, and is incorporated herein by reference.

Item 14. <u>Principal Accounting Fees and Services</u>.

The information required by this item is contained under the caption "Independent Auditor Fees" in our definitive proxy statement for our annual meeting of shareholders to be held on May 22, 2019, to be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2018, and is incorporated herein by reference.

PART IV

Item 15. **Exhibits, Financial Statement Schedules.**

Item 15(a)(1). **List of Financial Statements.**

The following consolidated financial statements of the Company and its subsidiaries, and reports of our registered independent public accounting firm, are filed as a part of this report under Item 8 - Financial Statements and Supplementary Data:

Independent Registered Public Accounting Firm's Report on Consolidated Financial Statements – Years Ended December 31, 2018, 2017 and 2016

Independent Registered Public Accounting Firm's Report on Internal Control Over Financial Reporting – December 31, 2018

Consolidated Balance Sheets - December 31, 2018 and December 31, 2017

Consolidated Statements of Operations - Years Ended December 31, 2018, 2017 and 2016

Consolidated Statements of Shareholders' Equity - Years Ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows - Years Ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

Item 15(a)(2). **Financial Statement Schedules. Attached as Appendix A.**

The following consolidated financial statement schedule of the Company and its subsidiaries is filed as part of this report:

Schedule II-Valuation and Qualifying Accounts

All other financial statement schedules are not required under the related instructions or are inapplicable and therefore have been omitted.

Item 15(a)(3). **List of Exhibits. The following exhibits are filed as a part of this report:**

Exhibit Number	Document
3.1	Spartan Motors, Inc. Restated Articles of Incorporation, as amended to date. Previously filed as Exhibit 3.1 to the Company's Form 10-Q Quarterly Report for the period ended June 30, 2017 (Commission File No. 001-33582), and incorporated herein by reference.
3.2	Spartan Motors, Inc. Bylaws, as amended to date. Previously filed as an exhibit to the Company's Current Report on Form 8-K filed on February 27, 2013 (Commission File No. 001-33582), and incorporated herein by reference.
4.1	Spartan Motors, Inc. Restated Articles of Incorporation. See Exhibit 3.1 above.
4.2	Spartan Motors, Inc. Bylaws. See Exhibit 3.2 above.

Exhibit Number	
4.3	Form of Stock Certificate. Previously filed as an exhibit to the Registration Statement on Form S-18 (Registration No. 2-90021-C) filed on March 19, 1984, and incorporated herein by reference.
4.4	The Registrant has several classes of long-term debt instruments outstanding, none of which represents an authorized amount of debt exceeding 10% of the Company's total consolidated assets, except as furnished under Exhibit 10.11 to this Form 10-K below. The Company agrees to furnish copies of any other agreements defining the rights of holders of other such long-term indebtedness to the Securities and Exchange Commission upon request.
10.1	Spartan Motors, Inc. Stock Incentive Plan of 2016. Previously filed as Appendix A to the Company's definitive proxy statement on Schedule 14A filed with the SEC on April 8, 2016 (Commission File No. 001-33582), and incorporated herein by reference.*
10.2	Spartan Motors, Inc. Stock Incentive Plan of 2007, as amended. Previously filed as Appendix A to the Company's 2007 Proxy Statement filed April 23, 2007 (Commission File No. 000-13611) and incorporated herein by reference.*
10.3	Spartan Motors, Inc. Leadership Team Compensation Plan. Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2015 (Commission File No. 001-33582), and incorporated herein by reference.*
10.4	Spartan Motors, Inc. Directors' Stock Purchase Plan. Previously filed as an exhibit to the Company's Form S-8 Registration Statement (Registration No. 333-98083) filed on August 14, 2002, and incorporated herein by reference.*
10.5	Form of Stock Appreciation Rights Agreement. Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2007 (Commission File No. 001-33582) and incorporated herein by reference.*
10.6	Form of Restricted Stock Agreement. Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2009 (Commission File No. 001-33582), and incorporated herein by reference.*
10.7	Form of Indemnification Agreement. Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2005 (Commission File No. 000-13611), and incorporated herein by reference.*
10.8	Supplemental Executive Retirement Plan. Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the period ended December 31, 2007 (Commission File No. 001-33582), and incorporated herein by reference. *
10.9	Spartan Motors, Inc. Stock Incentive Plan of 2012. Previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 15, 2012 (Commission File No. 001-33582), and incorporated herein by reference.*
10.10	Lease agreement dated February 13, 2012 between the Company and Fruit Hills Investments, LLC. Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2012 (Commission File No. 001-33582) and incorporated herein by reference.

Exhibit Number	
10.11	Credit Agreement dated August 8, 2018 by and among the Company, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto. Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2018 (Commission File No. 001-33582), and incorporated herein by reference.
10.12	Employment Letter Agreement dated July 22, 2014, between Spartan Motors, Inc. and Daryl M. Adams. Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2014 (Commission File No. 001-33582), and incorporated herein by reference.*
10.13	Employment Letter Agreement dated September 15, 2015, between Spartan Motors, Inc. and Frederick J. Sohm. Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015 (Commission File No. 001-33582), and incorporated herein by reference.*
10.14	Employment Letter Agreement dated December 23, 2014 between Spartan Motors, Inc. and Steve Guillaume. Previously filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the period ended December 31, 2015 (Commission File No. 001-33582) and incorporated herein by reference.*
10.15	Employment Letter Agreement dated May 11, 2015 between Spartan Motors, Inc. and Steve Guillaume. Previously filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the period ended December 31, 2015 (Commission File No. 001-33582) and incorporated herein by reference.*
10.16	Employment Letter Agreement dated July 14, 2014 between Spartan Motors, Inc. and Thomas C. Schultz. Previously filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the period ended December 31, 2016 (Commission File No. 001-33582) and incorporated herein by reference.*
10.17	Asset Purchase Agreement, dated as of December 12, 2016, by and among Spartan Motors USA, Inc., Smeal Fire Apparatus Co., Smeal Properties, Inc., Ladder Tower Co., U.S. Tanker Co., and Rodney Cerny, as Representative. Previously filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on January 5, 2017, and incorporated herein by reference.
10.18	Spartan Motors Inc. Management Severance Plan dated as of July 26, 2017. Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2018, and incorporated herein by reference.*
10.19	Employment Letter Agreement dated June 4, 2018 between Spartan Motors, Inc. and Matthew W. Long. Previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018 (Commission File No. 001-33582) and incorporated herein by reference.*
10.20	Consultant Agreement dated July 1, 2018 between Spartan Motors, Inc. and Thomas T. Kivell. Previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2018 (Commission File No. 001-33582) and incorporated herein by reference.*
21	Subsidiaries of Registrant.
23	Consent of BDO USA, LLP, Independent Registered Public Accounting firm.
24	Limited Powers of Attorney.
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

Exhibit Number	
31.2	Certification of Chief Financial Officer, Secretary and Treasurer pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Certification pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

*Management contract or compensatory plan or arrangement.

The Company will furnish a copy of any exhibit listed above to any shareholder of the Company without charge upon written request to: Chief Financial Officer, Spartan Motors, Inc., 1541 Reynolds Road, Charlotte, Michigan 48813.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPARTAN MOTORS, INC.

March 5, 2019	By /s/ Frederick J. Sohm Frederick J. Sohm Chief Financial Officer (Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

March 5, 2019	By /s/ Daryl M. Adams Daryl M. Adams Director, President and Chief Executive Officer (Principal Executive Officer)
March 5, 2019	By /s/ Frederick J. Sohm Frederick J. Sohm Chief Financial Officer (Principal Financial and Accounting Officer)
March 5, 2019	By * James A. Sharman, Director
March 5, 2019	By * Thomas R. Clevinger, Director
March 5, 2019	By * Richard F. Dauch, Director
March 5, 2019	By * Ronald E. Harbour, Director
March 5, 2019	By * Jeri L. Isbell, Director
March 5, 2019	By * Paul A. Mascarenas, Director
March 5, 2019	By * Dominic Romeo, Director
March 5, 2019	By Andrew M. Rooke, Director
March 5, 2019	By * /s/ Frederick J. Sohm Frederick J. Sohm Attorney-in-Fact

APPENDIX A

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
SPARTAN MOTORS, INC. AND SUBSIDIARIES

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts (Acquisition)	Deductions	Balance at End of Period
Year ended December 31, 2018:					
Allowance for doubtful accounts	$ 139	$ 32	$ -	$ (38)	$ 133
Year ended December 31, 2017:					
Allowance for doubtful accounts	$ 487	$ 109	$ -	$ (457)	$ 139
Year ended December 31, 2016:					
Allowance for doubtful accounts	$ 130	$ 368	$ -	$ (11)	$ 487

Financial Summary (Non-GAAP)
Consolidated
(In thousands)
(Unaudited)

	2018	2017	2016	2015
Operating income (loss)	$ 16,113	$ 16,171	$ 8,625	$ (12,479)
Less Taxes	(2,261)	(90)	(100)	(4,880)
Net operating profit after taxes	$ 13,852	$ 16,081	$ 8,525	$ (17,359)
Spartan Motors Inc. shareholders' equity				
Beginning balance	$ 168,927	$ 153,609	$ 149,141	$ 168,760
Ending balance	186,740	168,927	153,609	149,141
Average	$ 177,834	$ 161,268	$ 151,375	$ 158,951
Return on Invested Capital	7.8%	10.0%	5.6%	-10.9%

[This page intentionally left blank]

[This page intentionally left blank]

CORPORATE INFORMATION

Board of Directors

JAMES A. SHARMAN
Chairman of the Board and Chief Operating Officer, GoHealth

RICHARD F. DAUCH
Chief Executive Officer, Delphi Technologies

PAUL A. MASCARENAS
Former Chief Technical Officer and Vice President of Research and Advanced Engineering, Ford Motor Company

DARYL M. ADAMS
President and Chief Executive Officer, Spartan Motors, Inc.

RONALD HARBOUR
Senior Partner, Oliver Wyman

DOMINIC A. ROMEO
Former Senior Vice President and Chief Financial Officer, Thor Industries, Inc.

THOMAS R. CLEVINGER
Chief Executive Officer and Managing Partner, Cornerstone Growth Advisors, LLC

JERI L. ISBELL
Former Chief Human Resources Officer, Lexmark International, Inc.

ANDREW M. ROOKE
Chairman and Chief Executive Officer, ASV Holdings, Inc.

Corporate Officers and Executive Management

DARYL M. ADAMS
President and Chief Executive Officer, Spartan Motors, Inc.

RYAN L. RONEY
Chief Legal Officer and Corporate Secretary, Spartan Motors, Inc.

CHAD M. HEMINOVER
President, Spartan Fleet Vehicles and Services

FREDERICK J. SOHM
Chief Financial Officer, Spartan Motors, Inc.

STEVE K. GUILLAUME
President, Spartan Specialty Chassis and Vehicles

TODD S. FIERRO
President, Spartan Emergency Response

THOMAS C. SCHULTZ
Chief Administrative Officer, Spartan Motors, Inc.

CORPORATE HEADQUARTERS

Spartan Motors, Inc.
1541 Reynolds Road
Charlotte, MI 48813
(517) 543-6400

INDEPENDENT AUDITORS

BDO USA, LLP
200 Ottawa Ave. NW, Suite 300
Grand Rapids, MI 49503
(616) 774-7000

SHAREHOLDER INFORMATION

Shares of the company's stock are traded on the NASDAQ Global Select Market® under the ticker symbol SPAR. The company's 10-K report filed with the Securities and Exchange Commission will be provided free of charge to any shareholder upon written request and is available at the Spartan Motors website www.spartanmotors.com.

For more information, contact:
Spartan Motors, Inc.
Investor Relations
1541 Reynolds Road
Charlotte, MI 48813
(517) 543-6400

TRANSFER AGENT

American Stock Transfer & Trust Co. serves as the transfer agent for the corporation. Inquiries relating to stock transfers, changes of ownership, lost or stolen stock certificates, changes of address, and dividend payments should be addressed to:

6201 15th Avenue
Brooklyn, NY 11219
(800) 937-5449

Note: Business unit market share information is derived from industry data and management's estimates.

SPARTAN®

www.spartanmotors.com